DOCUMENT RESUME

ED 174 849 CE 022 493

TITLE	Better Jobs and Income Act, 1978. Hearings before the Committee on Human Resources. United States Senate, 95th Congress, 2nd Session, on S. 2084.
INSTITUTION	Congress of the U.S., Washington, D.C. Senate Committee on Human Resources.
PUB DATE	Mar 78
NOTE	287p.; Sections of this document will not reproduce well due to small print
EDRS PRICE	MF01/PC12 Plus Postage.
DESCRIPTORS	Economic Disadvantagement; Employment Opportunities; *Family Income; Family Problems; *Federal Programs; *Income; *Jobs; *Job Training; Low Income; Low Income Groups; Opinions; Physically Handicapped; *Welfare; Welfare Problems
IDENTIFIERS	Better Jobs and Income Act; *Senate Committee on Human Resources; United States

ABSTRACT

Hearings before the Committee on Human Resources of the U.S. Senate on the Better Jobs and Income Act (S. 2084) are presented. (The purpose of the Act, the text of which is included in the document, is to replace the existing federal welfare programs with a single, coordinated program to seek to assure jobs, training, and income supplementation for low-income citizens able to work and income support for low-income citizens in need who are not available for work.) Testimony is included from Ray Marshall, Secretary of the Department of Labor, and Joseph Califano, former Secretary of the Department of Health, Education, and Welfare. In addition, a prepared statement which was submitted to the committee by Senator Edward Kennedy and two question and answer sections are presented. (LRA)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED174849

BETTER JOBS AND INCOME ACT, 1978

HEARINGS

BEFORE THE

COMMITTEE ON HUMAN RESOURCES
UNITED STATES SENATE

NINETY-FIFTH CONGRESS

SECOND SESSION

ON

S. 2084

TO REPLACE THE EXISTING FEDERAL WELFARE PROGRAMS WITH A SINGLE, COORDINATED PROGRAM TO SEEK TO ASSURE JOBS, TRAINING, AND INCOME SUPPLEMENTATION FOR LOW-INCOME CITIZENS ABLE TO WORK AND INCOME SUPPORT FOR LOW-INCOME CITIZENS IN NEED WHO ARE NOT AVAILABLE FOR WORK BY REASON OF DISABILITY, AGE, OR FAMILY CIRCUMSTANCE

MARCH 22 AND 23, 1978

U S DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL NATIONAL INSTITUTE OF EDUCATION POSITION OR POLICY

ED084193

Printed for the use of the Committee on Human Resources

U.S. GOVERNMENT PRINTING OFFICE

32-235 O WASHINGTON : 1978

COMMITTEE ON HUMAN RESOURCES

HARRISON A. WILLIAMS, JR., New Jersey, *Chairman*

JENNINGS RANDOLPH, West Virginia
CLAIBORNE PELL, Rhode Island
EDWARD M. KENNEDY, Massachusetts
GAYLORD NELSON, Wisconsin
THOMAS F. EAGLETON, Missouri
ALAN CRANSTON, California
WILLIAM D. HATHAWAY, Maine
DONALD W. RIEGLE, JR., Michigan

JACOB K. JAVITS, New York
RICHARD S. SCHWEIKER, Pennsylvania
ROBERT T. STAFFORD, Vermont
ORRIN G. HATCH, Utah
JOHN H. CHAFEE, Rhode Island
S. I. HAYAKAWA, California

STEPHEN J. PARADISE, *General Counsel and Staff Director*
MARJORIE M. WHITTAKER, *Chief Clerk*
DON A. ZIMMERMAN, *Minority Counsel*
GREGORY FUSCO, *Minority Staff Director*

3

CONTENTS

Text of: Page

S. 2084 ---------- 3

CHRONOLOGICAL LIST OF WITNESSES

WEDNESDAY, MARCH 22, 1978

Marshall, Hon. Ray, Secretary, Department of Labor, accompanied by Dr. Jodie Allen, Special Assistant to the Secretary for Welfare Reform; and Richard Johnson, Special Assistant to the Assistant Secretary for Policy, Evaluation and Research ---------- 168

THURSDAY, MARCH 23, 1978

Califano, Hon. Joseph A. Jr., Secretary, Department of Health, Education, and Welfare, accompanied by Michael Barth and Daniel Marcus ---------- 235

STATEMENTS

Califano, Hon. Joseph A. Jr., Secretary, Department of Health, Education, and Welfare, accompanied by Michael Barth and Daniel Mrcus ---------- 235

Kennedy, Hon. Edward M., a U.S. Senator from the State of Massachusetts, prepared statement ---------- 216

Marshall, Hon. Ray, Secretary, Department of Labor, accompanied by Dr. Jodie Allen, Special Assistant to the Secretary for Welfare Reform; and Richard Johnson, Special Assistant to the Assistant Secretary for Policy, Evaluation and Research ---------- 168

ADDITIONAL INFORMATION

Articles, publications, etc.:

Description of program for better jobs and income ---------- 238

Minimum wages, prevailing wages, and PBJI wages ---------- 186

Program for better jobs and income: Illustrative benefit levels ---------- 195

Questions and answers:

Questions submitted to Secretary Marshall by the committee with responses ---------- 219

Questions submitted to Secretary Califano by the committee with responses ---------- 277

BETTER JOBS AND INCOME ACT, 1978

WEDNESDAY, MARCH 22, 1978

U.S. SENATE,
COMMITTEE ON HUMAN RESOURCES,
Washington, D.C.

The committee met at 9:40 a.m., in room 4232, Dirksen Senate Office Building, Senator Harrison A. Williams, Jr. (chairman) presiding.

Present: Senators Williams, Nelson, Cranston, Javits, Chafee, and Hayakawa.

OPENING STATEMENT OF SENATOR WILLIAMS

The CHAIRMAN. We will come to order.

The committee meets today to begin formal consideration of S. 2084, the program for better jobs and income. President Carter and his administration have proposed this legislation to reform a national system of public assistance that has struggeled over the years to provide "income maintenance" for poor families and their children. Too often, to the frustration of both the recipient and the general public, this "maintenance" has meant being maintained in poverty, with little hope of breaking out. Reform of this system is clearly overdue.

The legislation before us is of great importance, and its goals, as enunciated by the President, are noble goals. We have a responsibility, as a committee, to consider the proposal earnestly and act upon it at the earliest possible time, commensurate with our other responsibilities this year.

This legislation seeks to remedy some of the major faults of the present public assistance system, as well as previous proposals for comprehensive welfare reform. First and foremost, it provides the job opportunities—and the necessary training—to give poor Americans a real choice between work and welfare. By providing one job for every poor family with children, it would give them the avenue they need—and most often seek—to break out of the cycle of poverty and dependence. A single, consolidated cash assistance program holds promise for more simple and error-free administration. A national basic level of income for the poor provides uniformity and promotes fairness among recipients of assistance. Providing cash payments to two-parent family units would minimize the incentives for family breakups. Extending those payments to single persons and childless couples would bring every household under an umbrella of minimum subsistence.

The program is also designed to very substantially relieve the cost burden of the States and local governments, and this is an important goal of any comprehensive reform of the system.

The bill before us has been jointly referred to this committee and to the Committee on Finance, whose jurisdiction includes cash assistance programs under the Social Security Act. The interest of this committee run mainly to the job and training opportunities that would be provided for welfare recipients and other working poor.

I would emphasize, however, that the scope and nature of the job opportunities component would be heavily influenced by the eligibility standards contained in both Title I and Title II of this legislation.

The number of eligible persons will dictate the necessary scope of the program. The characteristics of the eligible population will dictate the nature of the required employment and training services. And the financial incentives to move from cash assistance alone to a subsidized job and ultimately to a nonsubsidized job will weigh heavily on the effectiveness of the underlying employment strategy for bringing the Nation into an era of full employment.

For these reasons, I believe this committee will want to reserve the right to view this legislation as a whole and to consider it comprehensively.

[The text of S. 2084 follows:]

95TH CONGRESS
1ST SESSION

S. 2084

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 12, 1977

Mr. MOYNIHAN (for himself, Mr. WILLIAMS, and Mr. JAVITS) introduced the following bill; which was read twice and jointly referred to the Committees on Finance and Human Resources by unanimous consent

A BILL

To replace the existing Federal welfare programs with a single, coordinated program to seek to assure jobs, training, and income supplementation for low-income citizens able to work and income support for low-income citizens in need who are not available for work by reason of disability, age, or family circumstance.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act, with the following table of contents, may be cited as the "Better Jobs and Income Act".

TABLE OF CONTENTS

Sec. 2. Declaration of purpose.

TITLE I—CASH ASSISTANCE PROGRAM UNDER THE SOCIAL SECURITY ACT

Sec. 101. Establishment of cash assistance program.

"TITLE XXI—INCOME SUPPLEMENT AND INCOME SUPPORT FOR FAMILIES AND INDIVIDUALS

"PART A—ELIGIBILITY FOR AND AMOUNT OF FEDERAL BENEFIT

"Sec. 2101. Eligibility of household unit for payments.
"Sec. 2102. Exclusions from household unit.
"Sec. 2103. Referral for employment or rehabilitation services.
"Sec. 2104. Amount of payment.
"Sec. 2105. Computation of maximum payable amount.
"(a) Individual amounts.
"(b) Increments for household units.
"(c) Limitations in special cases.
"(d) Computation for units subject to work requirement.
"Sec. 2106. Available income.
"Sec. 2107. Exclusions from available income.
"(a) Exclusions related to Federal assistance and nonemployment income.
"(b) Exclusions related to earned income.
"Sec. 2108. Distribution of available income over accountable period.
"Sec. 2109. Assets.
"Sec. 2110. Definitions.
"Sec. 2111. Savings provision in the case of aged, blind, or disabled individuals.
"Sec. 2112. Special provisions for the Commonwealth of Puerto Rico, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, and Guam.

"PART B—STATE SUPPLEMENTATION OF MAXIMUM PAYABLE AMOUNTS, MAINTENANCE OF STATE EFFORT, AND LIMITATION OF STATE FISCAL LIABILITY

"Sec. 2121. State supplementation of maximum payable amounts.
"Sec. 2122. Supplementation agreement.
"Sec. 2123. Special payment to household unit if supplementation percentage engenders personal income tax liability.
"Sec. 2124. Effect of benefit reduction rate of earned income exclusion.
"Sec. 2125. Federal participation in State supplementation payment.
"Sec. 2126. Maintenance of effort.
"Sec. 2127. Limitation on fiscal liability of States.
"Sec. 2128. State plans for services to disabled children.

TABLE OF CONTENTS—Continued

"PART C—ADMINISTRATION OF INCOME SUPPLEMENT AND INCOME SUPPORT PROGRAM

"Sec. 2131. Application.
"Sec. 2132. Determination of eligibility for and amount of payment.
"Sec. 2133. Payments of benefits.
"Sec. 2134. Reports and furnishing of information.
"Sec. 2135. Overpayments and underpayments.
"Sec. 2136. Disagreement with determinations of the Secretary.
"Sec. 2137. Furnishing of information by other Federal agencies.
"Sec. 2138. State agreement to receive applications and develop eligibility and payment information.
"Sec. 2139. Information and referral.
"Sec. 2140. Assurances on benefit reduction rates.
"Sec. 2141. Miscellaneous Federal-State administrative provisions.
"Sec. 2142. Determination of blindness and disability.
"Sec. 2143. Administrative arrangements.
"Sec. 2144. Penalties for fraud.
"Sec. 2145. Adjustment of payment amounts.".
Sec. 102. Assistance to meet emergency needs.

"PART B—ASSISTANCE TO MEET EMERGENCY NEEDS

"Sec. 2011. Appropriations authorized.
"Sec. 2012. Payments to States.
"Sec. 2013. Program reporting; filing of claims.
"Sec. 2014. Plan of assistance.
"Sec. 2015. State adoption of plan.
"Sec. 2016. Assistance for special categories of needy families and individuals.
"Sec. 2017. Definitions.".
Sec. 103. Amendment to earned income tax credit.
Sec. 104. Repeals.
Sec. 105. Conforming amendments.
Sec. 106. Federal employment of certain State and local employees or specially qualified personnel; acquisition of buildings and equipment; start-up funds; advance appropriations.
(a) (1) Employee eligibility for appointment.
(2) Conditions of appointment in special cases.
(3) Compensation of appointees.
(4) Credit for prior service.
(5) Sick leave.
(6) Retirement annuity.
(b) (1) Employment of special qualified personnel.
(2) Direct hiring and pay of new appointees.
(c) Acquisition of buildings and equipment.
(d) Start-up funds.
(e) Advance appropriations.
Sec. 107. Effective dates.

TABLE OF CONTENTS—Continued

TITLE II—EMPLOYMENT OPPORTUNITIES PROGRAM UNDER THE COMPREHENSIVE EMPLOYMENT AND TRAINING ACT OF 1973

Sec. 201. Establishment of program.

"TITLE IX—JOB OPPORTUNITIES PROGRAM

"Sec. 901. Statement of purpose.

"PART A—JOB OPPORTUNITIES PROGRAM

"Sec. 911. Authorization of appropriations.
"Sec. 912. Allocation of funds.
"Sec. 913. Financial assistance to prime sponsors.
"Sec. 914. Comprehensive job opportunities plan.
"Sec. 915. Review by Governor and State Manpower Services Council.
"Sec. 916. Statewide planning.
"Sec. 917. Definition.

"PART B—JOB SEARCH ASSISTANCE

"Sec. 931. Eligible individuals.
"Sec. 932. Job search assistance program.
"Sec. 933. Work requirement.
"Sec. 934. Notification regarding determinations.
"Sec. 935. Joint agreement for job search assistance responsibilities.

"PART C—SUBSIDIZED WORK AND TRAINING

"Sec. 951. Eligible participants.
"Sec. 952. Authorization of appropriations.
"Sec. 953. Allocation of funds.
"Sec. 954. Federal wage payments.
"Sec. 955. Federal financial assistance.
"Sec. 956. Wage supplementation.
"Sec. 957. Subsidized work and training opportunities.
"Sec. 958. Special conditions.".

DECLARATION OF PURPOSE

SEC. 2. It is the intent of the Congress, in establishing the better jobs and income program, to increase economic independence within the United States by providing training and job opportunities to principal earners in families with children, and by providing income support and supplementation to low-income families and individuals. To attain these

objectives equitably and with efficient use of Federal and State resources, the Congress finds it necessary to consolidate and reform currently fragmented Federal and State income assistance programs, to eliminate provisions that create disincentives to work or to family stability, and to reallocate responsibility among Federal and State governments in the financing and administration of income assistance and employment programs.

TITLE I—CASH ASSISTANCE PROGRAM UNDER THE SOCIAL SECURITY ACT

ESTABLISHMENT OF CASH ASSISTANCE PROGRAM

SEC. 101. The Social Security Act (42 U.S.C. 301, et seq.) is amended by adding at the end thereof the following new title:

"TITLE XXI—INCOME SUPPLEMENT AND INCOME SUPPORT FOR FAMILIES AND INDIVIDUALS

"PART A—ELIGIBILITY FOR AN AMOUNT OF FEDERAL BENEFIT

"ELIGIBILITY OF HOUSEHOLD UNIT FOR PAYMENT

"SEC. 2101. (a) The Secretary of Health, Education, and Welfare shall make payments, in the amount prescribed in section 2104, to an eligible household unit (as defined in subsection (b)) for any month in which its available income (as described in section 2106) does not exceed the

maximum payable amount applicable to such unit under section 2105, and the value of its assets does not exceed the amount prescribed in section 2109.

"(b) A household unit is either—

"(1) an adult individual who is not living with a related individual other than an adult individual who is aged, blind, or disabled, or

"(2) any of the following groups (as set out in subparagraph (A), (B), (C), or (D) below) of one or more related (as defined in section 2110(5)) individuals who are living in a single place of residence:

"(A) an aged, blind, or disabled individual who is not a child, his spouse (if any), and any child with respect to whom the individual or spouse is exercising parental responsibility, as determined in accordance with such criteria as the Secretary may, by regulation, prescribe;

"(B) an adult individual and his spouse (if any), neither of whom is an aged, blind, or disabled individual, and any child with respect to whom the adult individual or spouse is exercising parental responsibility, if there are at least two such individuals living together in the single place of residence;

"(C) two or more adult individuals who are

living in a single place of residence, none of whom described in clause (A) or (B); or

"(D) any child who is not living in the same place of residence as either of his parents or of any other individual who is legally responsible for the support and maintenance of such child if the child has been deprived of the support and care of both parents by reason of either death or desertion, or both, or removed from parental control by judicial authority.

"(c) (1) Any individual other than an individual described in subsection (b) (2) who is living in the same place of residence as a household unit described in such subsection and is related to its members is also a member of that unit if he applies for payment under this title. If that individual is living in the same place of residence as more than one household unit and applies for a payment under this title, he is a member of the household unit to the members of which he is most closely related, as determined in accordance with the Secretary's regulations.

"(2) Notwithstanding subsection (b), a child who is not related to the members of an eligible household unit with which he is living in a single place of residence may be considered to be a member of that unit when he is living

there in order to safeguard his health or safety or because it will otherwise assure his well-being or be in his best interests. The Secretary shall by regulation specify the classes of circumstances which are consistent with conditions of the preceding sentence, in which living with an unrelated household unit is necessary to assure a child's well-being or to protect his best interests.

"(d) The term 'eligible household unit' means a household unit that maintains a place of residence within the United States and has applied for payment under this title.

"EXCLUSIONS FROM HOUSEHOLD UNIT

"SEC. 2102. (a) No individual is included in a household unit unless he is either (1) a citizen of the United States, or (2) an alien lawfully admitted for permanent residence or otherwise permanently residing in the United States under color of law (including any alien who is lawfully present in the United States as a result of the application of the provisions of section 203(a)(7) or section 212(d)(5) of the Immigration and Nationality Act).

"(b) No individual is included in a household unit for any month if, on the last day of such month, he has been sentenced to and is confined in a penal or correctional institution.

"(c)(1) Except as provided in paragraph (2), no individual (not otherwise excluded from a household unit by

subsection (b) is included in a household unit for any month if, throughout that month and the preceding two months, he is an inmate of a public institution.

"(2) In any case after an individual has been, throughout any month and the preceding two months, in a hospital, extended care facility, or intermediate care facility receiving payment (with respect to such individual) under a State plan approved under title XIX, the maximum payable amount for each month thereafter with respect to that individual, notwithstanding section 2105(a), is $25 until the first month on the last day of which the individual is no longer in such a facility.

"(3) The Secretary may establish a maximum payable amount (not to exceed the maximum payable amount otherwise applicable under section 2105) with respect to institutionalized members of household units to which neither paragraph (1) nor paragraph (2) applies.

"(d) The maximum payable amount of an eligible household unit is determined as though an individual were not a member of that unit if, after notice to that individual by the Secretary that it is likely that the individual is eligible for any payments of the type enumerated in section 2106(b) (1) or (2), the individual fails within 30 days to take all appropriate steps to apply for and (if eligible) obtain any such payments.

"REFERRAL FOR EMPLOYMENT OR REHABILITATION SERVICES

"SEC. 2103. (a) In order to assist in the effective implementation of title IX of the Comprehensive Employment and Training Act of 1973, the Secretary shall provide notice to the Secretary of Labor concerning and refer to him each adult member of an eligible household unit with respect to which amounts are payable under this title, other than—

"(1) one adult member of an eligible household unit, other than the principal earner (as defined in section 951(b) of the Comprehensive Employment and Training Act of 1973) of that unit, if the unit consists of at least two or more adult members and at least one child,

"(2) one adult member (who is not an aged, blind, or disabled individual, is not incapacitated, and (if the unit contains more than one adult who is not an aged, blind, or disabled individual or incapacitated) is not the principal earner of the unit) of an eligible household unit that includes (A) at least one child under the age of 7 years, or (B) an individual determined by the Secretary to be aged, blind, or disabled individual, or by the Secretary of Labor to be an incapacitated individual, requiring regular or full-time care and attention (as defined by regulations of the Secretary);

"(3) an aged, blind, or disabled individual;

"(4) an adult member of an eligible household unit who is under the age of 21 and enrolled in a full-time course of study in an elementary or secondary school; or

"(5) an adult member of an eligible household who is enrolled in full-time study if such member either (A) has monthly earnings at least equal to the Federal minimum wage multiplied by 20 hours a week, or (B) is the only adult in a household that includes a child over the age of 6 years and below the age of 14 years.

"(b) (1) In the case of any blind or disabled individual who—

"(A) has not attained age 65, and

"(B) is receiving payments (or with respect to whom payments are made) under this title,

the Secretary shall make provision for referral of such individual to the appropriate State agency administering the State plan for vocational rehabilitation services approved under the Rehabilitation Act of 1973 (and is authorized to pay to such agency the costs incurred under the plan in providing services to such individual), or, in the case of any such individual who has not attained age 16, to the appropriate State agency administering the State plan under section 2128, and (except in such cases as he may determine) for a review not less often than quarterly of such

individual's blindness or disability and his need for and utilization of the services made available to him under such plan.

"(2) The maximum payable amount of an eligible household unit is determined as though an individual over the age of 16 were not a member of that unit if he is referred by the Secretary under paragraph (1) but refuses without good cause to accept vocational rehabilitation services which are made available to him.

"AMOUNT OF PAYMENT

"SEC. 2104. (a) The payment to an eligible household unit for any month shall be the amount (hereinafter in this title referred to as the 'maximum payable amount' of the unit) specified by section 2105, reduced by an amount (hereinafter in this title referred to as the 'available income' of the unit) determined under section 2106.

"(b) (1) If a household unit receives a payment under the preceding subsection for a month in which the earned income of the unit is an amount that, if multiplied by 12, would exceed an amount determined under regulations of the Secretary to subject the unit to liability for personal income tax under the Internal Revenue Code of 1954 in the taxable year in which that month occurs, then for each $1 of earned income (within the meaning of section 2106(b)(3)) subject to such tax and attributable to that unit for

that month the unit shall receive 20 cents from the Secretary as an additional payment, subject to paragraph (2). For the purpose of determining liability for personal income tax under the preceding sentence, the members of the unit are deemed to elect the standard deduction allowed by section 141 of the Code for that year.

"(2) If a household unit with respect to which paragraph (1) applies becomes ineligible for a payment for any month under subsection (a) by reason of the earned income attributable to that unit for a month, the unit shall nevertheless receive a payment equal to the additional payment the unit would have received by reason of paragraph (1), reduced by 20 cents for each $1 of earned income attributable to the unit for that month in excess of the minimum amount of earned income by reason of which the unit would become ineligible for a payment for that month under that subsection.

"COMPUTATION OF MAXIMUM PAYABLE AMOUNT

"SEC. 2105. (a) INDIVIDUAL AMOUNTS.—Except as provided by subsections (d) and (e), the maximum payable amount of an eligible household unit for a month is the total of (1) the sum of the increments or amounts provided by subsections (b) and (c), and section 2121 (pertaining to State supplementation) with respect to that unit,

and (2) the sum of the amounts shown with respect to the members of the unit in the following table:

"For each unit member who is—	The amount payable with respect to the member is—
An adult who is aged, blind, or disabled	$133.33;
Any other adult	91.67;
A child who is blind or disabled	91.67; or
Any other child	50.00.

"(b) INCREMENTS FOR HOUSEHOLD UNITS.—The maximum payable amount of an eligible household unit for a month, as determined under subsection (a), is increased as provided in the following table:

"If the unit consists of—	The maximum payable amount of the unit is increased by—
One adult who is aged, blind, or disabled	$75.00;
One individual and the individual's spouse, each of whom is aged, blind, or disabled	45.83;
One adult and one or more children	108.33; or
Two or more adults and one or more children	66.67.

"(c) LIMITATIONS IN SPECIAL CASES.—(1) If an adult who is a member of an eligible household unit consisting of aged, blind, or disabled individuals, or having a child as a member, lives in a common place of residence in any month with one or more other individuals to whom he is related but who are not members of that unit, the maximum payable amount of that unit under section 2105 is reduced as follows:

"(A) If no member of that unit has an ownership or leasehold interest in the common place of residence, the reduction is $66.67.

"(B) If a member of that unit has an ownership or leasehold interest in the common place of residence, and that interest is shared with one or more individuals living in the common place of residence who are not members of that unit, the reduction is $33.33.

This paragraph applies to the maximum payable amount of each of the eligible household units living in a single place of residence.

"(2) If an eligible household unit consists of more than 7 individuals, the unit's maximum payable amount shall be determined as though the unit consisted of 7 individuals. For purposes of the preceding sentence, the unit is deemed to consist only of those 7 of its members whose membership in the unit results in a determination of the highest maximum payable amount for the unit under this section.

"(d) COMPUTATION FOR UNITS SUBJECT TO WORK REQUIREMENT.—(1) (A) In the case of an eligible household unit a member of which is eligible for subsidized work or training under title IX of the Comprehensive Employment and Training Act of 1973, and required to be referred to the Secretary of Labor under section 2103, other than a unit described in paragraph (2), the maximum payable amount of that unit for any month is determined as though

that member were not included in the unit for that month and the increment under subsection (b) for that unit is reduced for that month by $66.67, unless the Secretary of Labor has certified to the Secretary that the member is incapacitated, or that no employment or training has been offered to that member, and that certification has not been withdrawn with respect to that month.

"(B) In the case of a member of an eligible household unit to which subparagraph (A) applies who is employed in subsidized work or training as described in that subparagraph, and who ceases to be so employed by reason of incapacity (as defined in title IX of the Comprehensive Employment and Training Act of 1973), the member is included in the household unit for purposes of determining the maximum payable amount of that unit, and no reduction is made in the increment of that unit (as would otherwise be required to be made by subparagraph (A)) during the period of that incapacity, except as provided by subparagraph (C).

"(C) If the incapacity described in subparagraph (B) continues or is expected to continue in excess of 90 days and the unit contains an adult member who is not incapacitated, that adult member shall become eligible for a subsidized work or training under title IX of the Comprehensive Employment and Training Act of 1973 in lieu of the incapacitated mem-

ber, unless the incapacitated member is found by the Secretary to require regular or full-time care and attention and the unit contains no more than one adult member who is not incapacitated. In the case of an adult member of a unit who becomes eligible for subsidized work or training under this subparagraph and has been referred to the Secretary of Labor under section 2103, subparagraph (A) applies to the household unit only after the month in which by the Secretary of Labor certifies to the Secretary that the eligible member (i) did not report to the Secretary of Labor by the close of the seventh day following the day the member was referred, or (ii) has been offered employment or training, or has failed to comply with any requirement under title IX of the Comprehensive Employment and Training Act of 1973; and the member should continue to be excluded until the month after the month the certification is withdrawn.

"(2) In the case of an eligible household unit that consists of not more than one adult, one or more children over the age of 6 years and below the age of 14 years, and no child below the age of 7 years, paragraph (1) (A) applies only after the month in which the Secretary of Labor certifies to the Secretary that the adult has been offered employment or training, or has failed to comply with any requirement under title IX of the Comprehensive Employment and Training Act of 1973; and paragraph

(1) (A) shall continue to apply until the month after the month in which the certification is withdrawn.

"(3) In the case of an eligible household unit other than a unit described in paragraph (1) (A), or (2), a member of which has been referred to the Secretary of Labor under section 2103, the maximum payable amount of that unit is determined as though that member were not included in the unit after the month in which the Secretary of Labor certifies to the Secretary that the member (A) did not report to the Secretary of Labor by the close of the seventh day following the day the member was referred, or (B) has been offered employment or training or has failed to comply with any requirement under title IX of the Comprehensive Employment and Training Act of 1973; and the member shall continue to be excluded until the month after the month in which the certification is withdrawn.

"AVAILABLE INCOME

"SEC. 2106. (a) For purposes of determining the payment to an eligible household unit for any month under section 2104, the available income of the unit for that month is, except as provided by section 2123 (pertaining, in part, to rules applicable to increases in benefit reduction rates), the sum of—

"(1) 100 per centum of Federal assistance income,

"(2) 80 per centum of nonemployment income, and

"(3) 50 per centum of earned income,

received by each member of the household unit in that month, including excess available income of the unit attributed to that month by section 2108, but excluding income described in section 2107.

"(b) As used in this section—

"(1) the term 'Federal assistance income' means a cash payment received by or for the use of an individual from any agency of the United States the eligibility for, or amount of, which is dependent upon the financial resources of that individual or his need for financial assistance, including veterans' pensions;

"(2) the term 'nonemployment income' means all income, other than Federal assistance income and earned income, in cash or in kind, including—

"(A) any payments received as an annuity, pension, retirement, or disability benefit, including veterans' or workmen's compensation and old-age survivors, and disability insurance, railroad retirement, and unemployment benefits, and similar benefits;

"(B) prizes and awards;

"(C) training allowances or stipends not described in paragraph (3);

"(D) gifts and support and alimony payments;

"(E) rents, dividends, interest, and royalties;

"(F) income imputed from nonbusiness assets under section 2109; and

"(G) the value of in kind income established by the Secretary under section 2107 (a) (17); and

"(3) the term 'earned income' means—

"(A) wages as determined under section 203 (f) (5) (C),

"(B) net earnings from self-employment, as defined in section 211 (without the application of the second and third sentences following subsection (a) (10) and the last paragraph of subsection (a) (each pertaining to an exclusion of a portion of the proceeds of certain agricultural labor)), including earnings for services described in paragraphs (4) (pertaining to services by ordained ministers), (5) (pertaining to services by Christian Science practitioners), and (6) (pertaining to self-employment income of members of certain religious faiths) of subsection (c).

"(C) training stipends or allowances received under title IX of the Comprehensive Employment and Training Act of 1973;

"(D) amounts (not otherwise wages under

subparagraph (A)) paid to a blind or disabled individual by a sheltered workshop (as that term is defined by the Secretary);

"(E) amounts received by an individual under a program of any State as compensation for the care of any relative of the individual; and

"(F) income imputed from business assets under section 2109(a).

"EXCLUSIONS FROM AVAILABLE INCOME

"SEC. 2107. (a) EXCLUSIONS RELATED TO FEDERAL ASSISTANCE AND NONEMPLOYMENT INCOME.—There are excluded from the income to which section 2106(a) applies—

"(1) support and maintenance in kind furnished to an individual by an individual with whom he shares a single place of residence;

"(2) support and maintenance furnished to an individual by a nonprofit retirement home or similar nonprofit institution in which he resides to the extent that it is furnished to the individual without the institution's receiving payment therefor except from another nonprofit organization;

"(3) when provided by an agency of the United States, a State, or a political subdivision of a State, or by an organization described in section 501(c)(3) of

the Internal Revenue Code of 1954, in consideration of an individual's need for that assistance, the value of housing (or any payment required to be used for housing), aid to meet an emergency need, and any social service;

"(4) gifts, prizes, or awards, in cash or kind, to the extent that they do not exceed $20 in that month;

"(5) personal or real property, or equitable interests therein, that are inalienable and unavailable for use as food, clothing, or shelter by the individual who receives it or by any other member of the individual's household unit;

"(6) lump-sum insurance proceeds, inheritances, judgments, and similar nonrecurring payments;

"(7) one-half of the amount furnished to an individual by the United States by reason of the individual's prior service in a uniformed service of the United States and current enrollment in any course of education or training;

"(8) student assistance to the extent it is used for tuition and mandatory school fees;

"(9) the value of food received under any program or activity financed in whole or in part by any department or agency of the United States;

"(10) the value of home produce consumed by the household unit by which grown;

"(11) amounts received as a payment under section 2104 or under an agreement with a State entered into under section 2121 or section 2111; and

"(12) amounts, if not otherwise excluded under paragraph (10), received as a cash payment by or for the use of an individual from any agency of a State or a political subdivision thereof the eligibility for, or amount of which, is dependent upon the financial resources of that individual or his need for financial assistance;

"(13) amounts received as a cash payment under any program of the State assisted under part B of title XX;

"(14) medical vendor payments as defined by the Secretary;

"(15) reimbursements, for expenses incurred with respect to work or volunteer activities, that do not exceed expenses actually incurred and that do not represent a gain or benefit to a household unit receiving them;

"(16) the proceeds of any loan to a member of a household unit (other than a loan made under an agreement whereby cash repayment of the loan, or any por-

tion thereof, loan will be repaid by any organization or agency, or by any individual not a member of the unit, except in the case of default) ; and

"(17) income in kind, the value of which the Secretary finds cannot be readily ascertained, except that the Secretary, by regulation, may set, or establish procedures for the setting of, an amount that reasonably represents the value of any such income, in which case this paragraph does not apply to that income.

"(b) EXCLUSIONS RELATED TO EARNED INCOME.—There are also excluded from the income to which section 2106(a)(3) applies—

"(1) in the case of an eligible household unit that includes not more than one adult member, an amount for each month equal to expenditures for such care of each member of the unit who is a child below the age of 14 years as is necessary, or any other dependent with respect to whom it is demonstrated to the satisfaction of the Secretary to be necessary, to enable the adult member of the unit to accept part- or full-time employment, but not in excess of the lesser of (A) the earned income of the household unit in that month, or (B) $150 per month with respect to a unit containing only one such child or dependent and $300 per month with respect to a unit containing more than one such child or dependent;

"(2) in the case of an eligible household unit having a child as a member and having also a member who is not included in the unit for any month by reason of section 2105(d) (1) or (2) for purposes of computing the maximum payable amount of the unit, an amount equal to so much of the earned income of that member for that month as does not exceed $316.67 or the amount specified by section 2124, whichever is applicable; and

"(3) in the case of an eligible household unit described in section 2105(d) (3) having two or more members, a member of which is not included in the unit for any month by reason of that section, an amount equal to so much of the earned income of that member for that month as does not exceed (A) twice the maximum payable amount specified for the member (had he been included in the unit for that month) by section 2104(a), or (B) the amount specified by section 2124, whichever is applicable.

"DISTRIBUTION OF AVAILABLE INCOME OVER ACCOUNTABLE PERIOD

"SEC. 2108. (a) (1) For the purpose of determining the payment under section 2104 to an eligible household unit for a month, the excess available income attributed to that month is an amount equal to the sum of the excess avail-

able income for each of the five immediately preceding months. The excess in each preceding month is the amount (if any) by which the available income for that month (determined without regard to this paragraph) exceeds (after reduction under paragraph (2)) the maximum payable amount of the unit (computed under section 2105) for that month.

"(2) Whenever, during the period of the five immediately preceding months referred to in paragraph (1), there occurs a month for which the maximum payable amount exceeds the available income for that month (determined without regard to paragraph (1)), the amount of that difference is applied to reduce the amount of the excess available income for the earliest preceding month of that period in which there is excess available income. The remainder (if any) of that difference is then applied to reduce the amount of the excess available income (if any) for each successive month of that period that precedes the month in which that difference occurs, until the difference is reduced to zero.

"(b) For purposes of the preceding subsection, an eligible household unit with respect to which a payment under section 2104 is determined for any month is deemed, in each of the five months preceding that month, to have the same composition as, under regulations of the Secretary, it has during such month.

"ASSETS

"SEC. 2109. (a) No payments under this title may be made to an eligible household unit if the value of its nonbusiness assets, other than those excluded under subsection (b), exceeds $5,000 in any month, or if the value of its business assets held for the production of self-employment income (as defined in accordance with criteria prescribed by the Secretary), exceeds, in any month, a limit prescribed by the Secretary. For purposes of section 2106, the income of an eligible household unit for a month shall be increased by 1.25 per centum of so much of the value of its nonbusiness assets, other than those excluded under subsection (b), as exceeds $500, less the amount of any income derived from those assets and received by the household unit in that month; and that income shall be increased by 0.83 per centum of the value of its business assets less the amount of any income so derived.

"(b) In determining the value of the nonbusiness assets of a household unit, the Secretary shall exclude—

"(1) the home (including so much of the land that appertains thereto as the Secretary determines is reasonable) if it is the place of residence of the household unit,

"(2) the household goods and personal effects (including vehicles) of members of the household unit (including tools or other similar items necessary for a

member to engage in gainful employment, up to such limits as the Secretary may by regulation prescribe), and

"(3) separate, identifiable amounts (or the value of any plot of land) set aside by a member of an eligible household unit for meeting the expenses (or requirements) of his burial, to the extent they do not exceed the amount (or value) that the Secretary determines to be reasonable for this purpose.

"(c) For purposes of this section—

"(1) the term 'assets of a household unit' means the total of the assets of each member of the household unit;

"(2) an asset becomes an asset of the household unit in the first month throughout all of which it was owned by and within the control of a member of the unit;

"(3) the value of a business asset shall be determined by its fair market value reduced by the amount of any encumbrances thereon; and

"(4) the value of a nonbusiness asset shall be determined by its fair market value.

"(d) (1) If a member of an eligible household unit disposes of an asset, other than a business asset or an asset referred to in subsection (b), the value received, if any,

(whether in cash or in kind) shall be treated by the Secretary as an asset (and not income).

"(2) If a member of an eligible household unit disposes of a business asset or an asset described in paragraph (1), (2), or (3) of subsection (b), or a plot of land described in paragraph (4) of subsection (b), the Secretary shall not consider the value received as either an asset or income until the expiration of one calendar month, or, in the case of an asset described in subsection (b) (1), six calendar months, succeeding the month of disposition, or such long period as he determines there is good cause to allow. Thereafter, he shall apply subsections (a) and (b) to determine whether any payment may be made to the household unit.

"DEFINITIONS

"SEC. 2110. For purposes of this title—

"(1) The terms 'child' and 'children' mean only an individual or individuals under the age of 18 years who are not parents of another child living in the same place of residence.

"(2) The term 'adult' means an individual other than a child.

"(3) In determining whether an individual is married or whether one individual is the spouse of another, appropriate State law shall be applied, except that if two individuals have been determined to be husband

and wife under section 216(h)(1) of the Social Security Act and no change affecting that relationship or that determination has since occurred, they shall be considered to be married for purposes of this title.

"(4) The term 'related', as used in this title, means bearing a relationship to an individual that is the same as one of the relationships to a taxpayer described by paragraphs (1) through (8) of section 152 of the Internal Revenue Code of 1954 and an individual is 'related' to the members of a household unit if he is related to at least one member of the unit.

"(5) An individual is considered to be a member of a household unit for a month if he was a member of that unit on the last day of that month.

"(6) Individuals are 'living in a single place of residence' when, as defined by regulations of the Secretary, each of them has that residence as his abode and is not absent therefrom (except to seek or engage in employment) for a period in excess of 3 consecutive months.

"(7) A student (other than a student who is an aged, blind, or disabled individual) at an educational institution (as the terms 'student' and 'educational institution' are defined by the Secretary) is a member of a household unit any other member of which is furnishing

or has furnished to the student more than one-half of his support for the 12 months preceding the month for which payment with respect to the student is sought under this title.

"(8) The term 'United States' means the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, Guam, and the Virgin Islands.

"(9) (A) The term 'aged, blind, or disabled individual' means an individual who is 65 years of age or older, is blind (as determined under subparagraph (B)), or is disabled (as determined under subparagraph (C)).

"(B) An individual shall be considered to be blind for purposes of this title if he has central visual acuity of 20/200 or less in the better eye with the use of a correcting lens. An eye which is accompanied by a limitation in the fields of vision such that the widest diameter of the visual field subtends an angle no greater than 20 degrees shall be considered for purposes of the first sentence of this subsection as having a central visual acuity of 20/200 or less. An individual shall also be considered to be blind for purposes of this title if he was determined to be blind as defined under title XVI of the Social Security Act (as in effect for the 50 States) prior to the effective date of this title and received payments pursuant thereto

on the basis of blindness for the month before the first month for which this title is in effect, so long as he is continuously blind as so defined.

"(C) (i) An individual shall be considered to be disabled for purposes of this title if he is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve months (or, in the case of an individual under the age of 18, if he suffers from any medically determinable physical or mental impairment of comparable severity).

"(ii) For purposes of subparagraph (i), an individual shall be determined to be under a disability only if his physical or mental impairment or impairments are of such severity that he is not only unable to do his previous work but cannot, considering his age, education, and work experience, engage in any other kind of substantial gainful work that exists in the national economy, regardless of whether such work exists in the immediate area in which he lives, or whether a specific job vacancy exists for him, or whether he would be hired if he applied for work. For purposes of the preceding sentence

(with respect to any individual), the term 'work that exists in the national economy' means work positions that exist in significant numbers either in the region where such individual lives or in several regions of the country.

"(iii) For purposes of this paragraph, a physical or mental impairment is an impairment that results from anatomical, physiological, or psychological abnormalities that are demonstrable by medically acceptable clinical and laboratory diagnostic techniques.

"(iv) The Secretary shall by regulation prescribe the criteria for determining when services performed or earnings derived from services demonstrate an individual's ability to engage in substantial gainful activity. Notwithstanding the provisions of subparagraph (ii), an individual whose services or earnings meet such criteria, except for purposes of paragraph (D), shall be found not to be disabled.

"(v) Notwithstanding the provisions of subparagraphs (i) through (iv), an individual shall also be considered to be disabled for purposes of this title if he was determined to be disabled as defined under title XVI of the Social Security Act (as in effect prior to the effective date of this title) and received payments

pursuant thereto on the basis of disability for the month before the first month for which this title is in effect, so long as he is continuously disabled as so defined.

"(D) (i) For purposes of this title, any services rendered during a period of trial work (as defined in subparagraph (ii)) by an individual who is an aged, blind, or disabled individual solely by reason of disability (as determined under paragraph (C) of this subsection) shall be deemed not to have been rendered by such individual in determining whether his disability has ceased in a month during such period. As used in this paragraph, the term 'services' means activity that is performed for remuneration or gain or is determined by the Secretary to be of a type normally performed for remuneration or gain.

"(ii) The term 'period of trial work', with respect to an individual who is an aged, blind, or disabled individual solely by reason of disability (as determined under paragraph (C) of this subsection), means a period of months beginning and ending as provided in subparagraphs (iii) and (iv).

"(iii) A period of trial work for any individual shall begin with the month in which he becomes eligible for benefits under this title on the basis of his disability; but no such period may begin for an individ-

ual who is eligible for benefits under this title on the basis of a disability if he has had a previous period of trial work while eligible for benefits on the basis of the same disability.

"(iv) A period of trial work for any individual shall end with the close of whichever of the following months is the earlier:

"(I) the ninth month, beginning on or after the first day of such period, in which the individual renders services (whether or not such nine months are consecutive); or

"(II) the month in which his disability (as determined under paragraph (4) (C) of this subsection) ceases (as determined after the application of subparagraph (i) of this paragraph).

"SAVINGS PROVISION IN THE CASE OF AGED, BLIND, OR DISABLED INDIVIDUALS

"SEC. 2111. (a) In the case of an individual who is an aged, blind, or disabled individual, as defined by section 2110(4)(A), and, for the month immediately preceding the month for which section 2101 comes into effect, was for a recipient of (and was eligible to receive) a supplemental security income benefit under title XVI of this Act as in effect for that preceding month, the payment under this title for any month shall be the greater of the benefit

under title XVI that the individual would receive if that title were still in effect as it was for the month preceding the month for which this title became effective, or the payment with respect to that individual for the household unit of which that individual is a member, shall under this section, without regard to section 2121 (pertaining to State supplementation of maximum payable amounts). The benefit under such title XVI shall be the amount specified by sections 1611 and 1612 of this Act, as increased by the operation of section 211 of Public Law 93–66 and as in effect in that preceding month, except as provided by subsection (c) of this section, but without regard to section 1617 or 1618.

"(b) At the request of a State that had in effect an agreement with the Secretary under section 1616 for the month immediately preceding the month with which section 2101 comes into effect, the Secretary shall continue to pay to an individual, for each month that subsection (a) remains applicable to that individual, the amount of the optional State supplementary payment that would have been made under that agreement had the agreement continued in effect and section 2101 not come into effect: *Provided*, That the State enters into an agreement with the Secretary to reimburse him, at such times and under such conditions as he may

specify, for his expenditures with respect to each such optional State supplementary payment.

"(c) Subsection (a) shall cease to apply to an individual for and after the month beginning with whichever of the following months first occurs—

"(1) the month in which an application for payment under this title ceases to be effective as specified by section 2131 (b);

"(2) the first month in which the individual ceases to be an aged, blind, or disabled individual;

"(3) the first month for which the amount of a payment to an individual, or to a household unit with respect to the individual, under section 2104, would be greater than the supplemental security income benefit that the individual received (and was eligible to receive) under title XVI of this Act for the month immediately preceding the first month for which section 2101 came into effect;

"(4) the first month for which an individual would have been ineligible to receive a supplemental security income benefit under title XVI (as in effect for the month immediately preceding the first month for which section 2101 came into effect) by reason of the provisions of

section 1611(e) (1)(A), (2), or (3), 1611(f), or 1615(c), had title XVI remained in effect.

"SPECIAL PROVISIONS FOR THE COMMONWEALTH OF PUERTO RICO, THE VIRGIN ISLANDS, THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS, AND GUAM

"SEC. 2112. (a) In applying this title to the Commonwealth of Puerto Rico, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, or Guam—

"(1) the payment to an eligible household unit under section 2104 is an amount that bears the same ratio to that payment in each of those territories as the per capita incomes of the Commonwealth of Puerto Rico; the Virgin Islands, the Commonwealth of the Northern Mariana Islands, and Guam, respectively, in the fiscal year 1980 bear to the per capita income of that one of the other fifty States that has the lowest per capita income in that year, which amount, if not a multiple of $0.10, shall be raised to the next higher multiple of $0.10 except that in any case in which the ratio exceeds 0.9 it is deemed to be 1.0;

"(2)(A) the percentage used for determining available income under section 2106(a)(2) (pertaining to

nonemployment income) or 2106(a)(3) (pertaining to earned income) shall, in lieu of the percentage set forth in that section, the percentage equal to the product of that percentage and the ratio determined under paragraph (1), except that if such product is not a multiple of 5 per centum it shall be raised or reduced to the nearest such multiple (and if a multiple of 2.5 per centum, but not a multiple of 5 per centum, to the next higher multiple of 5 per centum);

"(B) the amount of any exclusion related to earned income under section 2107(b) shall, in lieu of the amount set forth in that section, be an amount equal to the product of that exclusion and the ratio determined under paragraph (1), except that if such amount is not a multiple of $1 it shall be raised to the next higher multiple of $1; and

"(C) the value of any nonbusiness assets specified by the first sentence of section 2109(a) (pertaining to maximum allowable amounts of assets) shall, in lieu of the value so specified, be a value equal to the product of that value and the ratio determined under paragraph (1), except that if such value is not a multiple of $1 it shall be raised to the next higher multiple of $1;

"(3) section 2105(d)(1)(A) (pertaining to computation for units with members required to seek employment) is applicable in the Commonwealth of Puerto Rico, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, or Guam only upon the extension to that territory (as determined by the Secretary of Labor) of title IX of the Comprehensive Employment and Training Act of 1973 on the same terms and conditions upon which the title is extended to each of the 50 States and the District of Columbia, except that such section shall be applicable to any household unit described therein if the Secretary of Labor certifies to the Secretary that a member of the unit referred to the Secretary of Labor under section 2103 has been offered employment or has failed to comply with any requirement under title IX of the Comprehensive Employment and Training Act of 1973; and

"(4) sections 2121 through 2125 (pertaining to State supplementation) are inapplicable.

"(b) The ratio to be used under subsection (a) in the Commonwealth of Puerto Rico, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, and Guam, shall be promulgated by the Secretary between July 1 and September 30 of 1981.

"PART B—STATE SUPPLEMENTATION OF MAXIMUM PAYABLE AMOUNTS, MAINTENANCE OF STATE EFFORT, AND LIMITATION OF STATE FISCAL LIABILITY

"STATE SUPPLEMENTATION OF MAXIMUM PAYABLE AMOUNTS

"SEC. 2121. A State may enter into an agreement with the Secretary under which the maximum payable amounts established by section 2105 and the percentage prescribed by section 2106(a)(3) (pertaining to the rate at which amounts payable under this title are reduced in consideration of earned income) shall be increased, with respect to household units within the State eligible for payments under this title, by an amount prescribed by the State consistent with sections 2122, 2123, and 2124. The Secretary shall prescribe rules with respect to the time of entering into and amending the agreement in order to assure the Secretary an adequate opportunity to prepare for the implementation of the agreement and any amendments thereto.

"SUPPLEMENTATION AGREEMENT

"SEC. 2122. An agreement between the Secretary and a State entered into under section 2121 shall contain terms that comply with the following requirements:

"(1) Each amount, increment, and reduction used, under section 2105, to determine the maximum payable amount of an eligible household unit shall be increased

by such percentage (hereinafter in this part referred to as the 'supplementation percentage') as the State, by the agreement and consistent with this section, may prescribe, subject to regulations of the Secretary governing the number and composition of categories of household units to which different supplementation percentages may apply.

"(2) The State may also increase the percentage prescribed by section 2106(a)(3) (hereinafter in this part referred to as the 'benefit reduction rate applicable in the case of earned income'), uniformly with respect to each dollar of income, consistent with this section, provided that the sum of the benefit supplementation percentage established under paragraph (1) and 100, when divided by the benefit reduction rate established under this paragraph, a quotient equal to or greater than 2.

"(3) The maximum payable amount (as increased by the supplementation percentage) and the benefit reduction rate applicable in the case of earned income shall apply within all geographic areas of the State with respect to all members of the category of class of household unit eligible therefor.

"(4)(A) Subject to any offset under section 2125 (pertaining to Federal participation in State supple-

mentation payments) and section 2126 (pertaining to limitation of State fiscal liability) the State shall, at such times and in such installments as the Secretary may prescribe, pay to the Secretary an amount (hereinafter in this part referred to as the 'supplementation payment') equal to the expenditures made by the Secretary because of the increase of a maximum payable amount, with respect to household units within the State, by a supplementation percentage.

"(B) The supplementation payment, in the case of a State, is an amount, computed by the Secretary for each month in which an agreement is in effect between the Secretary and the State under section 2121, that is the sum of all payments to household units that received payments within the State under section 2104 for that month, reduced by an amount equal to the sum of all payments that those units would have received for that month under section 2104(a) had the agreement not been in effect.

"(5) The State shall make the payments to the Secretary prescribed by section 2123.

"(6) The State shall allocate to each of its political subdivisions the portion of any offset received under section 2125, with respect to any month, that bears the same ratio to the offset as the political subdivision's

financial contribution (if any) to the State's supplementation payment with respect to that month bears to the total supplementation payment with respect to that month.

"(7) The State shall make the payments with respect to wage supplements required by section 953 of the Comprehensive Employment and Training Act of 1973.

"SPECIAL PAYMENT TO HOUSEHOLD UNIT IF SUPPLEMENTATION PERCENTAGE ENGENDERS PERSONAL INCOME TAX LIABILITY

"SEC. 2123. If the additional payment to a household unit under section 2104(b) is increased by reason of a supplementation agreement entered into under section 2121, the State shall reimburse the Secretary for 75 per centum of that increase, at such times and in such manner as the Secretary's regulations prescribe.

"EFFECT OF BENEFIT REDUCTION RATE ON EARNED INCOME EXCLUSION

"SEC. 2124. In any case in which the benefit reduction rate applicable in the case of earned income for any month exceeds 50 per centum, or a supplementation percentage exceeds 0.0 percent, with respect to a household unit to which paragraph (2) or (3) (pertaining to earned income exclusion) of section 2107(b) applies, there is excluded from the

income of that unit for that month, in lieu of the exclusion provided by each such paragraph, an amount equal to the product of $158.33 with respect to paragraph (2), or $91.67 with respect to paragraph (3), and a ratio the numerator of which is 100 plus the supplementation percentage applicable to that unit, and the denominator of which is the benefit reduction rate applicable in the case of earned income of members of the unit.

"FEDERAL PARTICIPATION IN STATE SUPPLEMENTATION PAYMENT

"SEC. 2125. (a) (1) The Secretary shall offset against the supplementation payment for each month, in the case of each State that has entered into an agreement with the Secretary under section 2121 that is in effect for that month, an amount equal to the Federal share of each supplemental payment to a household unit for that month computed under this section.

"(2) For purposes of this section a supplemental payment to a household unit for a month is the difference between the payment to that unit under section 2104 for that month and the payment (hereinafter in this section referred to as the 'Federal portion' of the supplemental payment to that unit) under that section if computed without regard to sections 2121, 2122, 2123, and 2124.

"(b) With respect to that portion of a supplementation

payment for a month that is attributable to a payment under section 2104 to an eligible household unit described in the case of an eligible household unit described in section 2105 (d) (1) (A), an eligible household unit a member of which is eligible for subsidized work or training under section 2105 (d) (1) (C), or an eligible household unit described in section 2105 (d) (3), the Federal share of that portion, except as otherwise provided in this section, is equal to the sum of—

"(1) an amount equal to the product of 75 per centum and so much of the supplemental payment to that household unit for that month as does not exceed 12.32 per centum of the Federal portion of the supplemental payment to that household unit for that month, computed without regard to this supplementation agreement; and

"(2) an amount equal to the product of 25 per centum and so much of the supplemental payment to that household unit for that month as exceeds 12.32 per centum of the maximum payable amount of the household unit for that month (as so computed) and does not exceed—

"(A) in the case of Alaska or Hawaii, the amount payable to the unit under section 2104 if the supplementation agreement is deemed to estab-

lish with respect to that unit for the month a supplementation percentage equal to 75 per centum of the weighted average official statistical poverty thresholds (as defined by the Office of Management and Budget) applicable to either State (as appropriate) divided by the maximum payable amount computed under section 2105 (without regard to the supplementation agreement) for a household unit consisting of one adult and three children (one of whom is under the age of 7 years), none of whom is an aged, blind, or disabled individual, and a benefit reduction rate of 52 per centum.

"(B) in the case of the remaining States, the amount payable to the unit under section 2104 if the supplementation agreement is deemed to establish, with respect to that unit for the month a supplementation percentage of 12.32 per centum and a benefit reduction rate of 52 per centum.

"(c) With respect to that portion of a supplementation payment for a month that is attributable to a payment under section 2104 to an eligible household unit not described in subsection (b) or subsection (d), the Federal share of that portion, except as otherwise provided in this section, is equal to the sum of the amounts described by paragraphs (1) and (2) of subsection (b), except that in paragraph

(2) (A) of that subsection 100 per centum is substituted for 75 per centum and 70 per centum is substituted for 52 per centum, and in paragraph (2) (B) of that subsection 51.2 per centum is substituted for 12.32 per centum, and 70 per centum is substituted for 52 per centum.

"(d) With respect to that portion of a supplementation payment for a month that is attributable to a payment under section 2104 to a household unit all adult members of which are aged, blind, or disabled, the Federal share of that portion, except as otherwise provided in this section, is an amount equal to the product of 25 per centum and so much of the supplemental payment to that household unit for that month as does not exceed 51.2 per centum of the Federal portion of the supplemental payment to that unit computed without regard to the supplementation agreement, and with the applicable benefit reduction rate deemed to be 70 per centum.

"(e) (1) In the case of an eligible household unit described in subsection (b), the Federal share of a supplemental payment to the unit may not exceed the amount that would be payable if the supplementation agreement under section 2121 established—

"(A) a benefit reduction rate that is the lesser of (i) the benefit reduction rate established by the agreement, and (ii) 52 per centum; and

"(B) a supplementation percentage that is the lesser of (i) the supplementation percentage established by the agreement and (ii) 12.32 per centum.

"(2) In the case of an eligible household unit described in subsection (c) or (d), paragraph (1) applies, except that 70 per centum is substituted for 52 per centum in subparagraph (a) (ii), and 51.2 per centum is substituted for 12.32 per centum in subparagraph (B) (ii).

"(f) If the earned income of a household unit (computed without regard to any payment under section 2104 (b) (pertaining to tax rebates), and after the exclusion of any amount provided under section 2107 (b) (1) (pertaining to dependent care expenses)) exceeds 216 per centum of the maximum payable amount applicable to that unit, or, in the case of a unit in Alaska or Hawaii, exceeds 144.23 per centum of the poverty level described in subsection (b) (2) (A), and the unit remains eligible for a payment under section 2104 (a), subsection (a) (1) of this section shall apply as though the unit ceased to be eligible for a payment under section 2104 (a) when its earned income (as so computed) exceeded such 216 per centum or 144.23 per centum, as applicable.

"(g) Subsection (a) (1) does not apply to a supplemental payment, for any month, to a household unit described in section 2105 (d) (1) (A) or (C) (pertaining

to certain household units having members eligible for subsidized work or training), or a supplemental payment, for any month, to a household unit described in section 2105 (d) (2) (pertaining to one-adult household units with children over 6 and under 14 years of age), or to a household unit consisting of one adult and at least one child under the age of 7, if the supplementation agreement entered into under section 2121 establishes in the case of each such household a different supplementation percentage or benefit reduction rate applicable with respect to earned income for the same month: *Provided*, That this subsection does not apply in any case in which the benefit reduction rates applicable with respect to earned income of household units described in sections 2105 (d) (1) (A) and (C) are equal to 52 per centum, and the benefit reduction rate applicable with respect to earned income of a household unit described in section 2105 (d) (2) and of a household unit consisting of one adult and at least one child under the age of 7, is equal to or greater than 52 per centum.

"MAINTENANCE OF EFFORT

"SEC. 2126. (a) In order to assure that each State will continue to share responsibility for meeting the title's objectives, each State shall pay to the Secretary with respect to that fiscal year, an amount equal to 10 per centum of the Federal expenditure (computed without regard to sec-

tions 2123 (a) and 2124)) for payments under section 2104 to eligible household units residing in such State (but not in excess of that amount based on the primary maintenance of effort amount which a State is required under subsection (b) (1) (A) to spend in the first fiscal year) and shall continue to expend for income maintenance and related purposes described in subsection (c), such additional amount as necessary to achieve the applicable total described in subsection (b).

"(b) (1) (A) In the first fiscal year in which this title is in effect, a State shall expend an amount equal to the sum of (i) 90 per centum of the primary maintenance of effort amount determined under subparagraph (B) with respect to that State, adjusted for use in that fiscal year, and (ii) the amount of that State's allotment of Federal funds for emergency needs under part B of title XX for that fiscal year, unless that State demonstrates to the Secretary, that, while spending a lesser amount, it has made all the expenditures necessary for that fiscal year to satisfy the alternate State maintenance of effort requirement (as specified in subparagraph (C)). The Secretary shall prescribe by regulation the standards and criteria which he will employ, and the requirements for a detailed showing by the State to the satisfaction of the Secretary that the alternative State maintenance of effort requirement will be met for a year, if the

State chooses to make such showing before the close of that fiscal year.

"(B) There shall be determined for each State an amount known as its 'primary maintenance of effort amount' which amount is the sum of the following amounts determined with respect to that State for quarters in fiscal year 1977:

"(i) the non-Federal share of expenditures as aid to families with dependent children (as defined in subsection (d) (1)),

"(ii) the non-Federal share of State supplementary payments for the aged, blind, and disabled (as defined in subsection (d) (2)),

"(iii) the non-Federal share of emergency assistance to needy families with children (as defined in subsection (d) (4)), and

"(iv) amounts expended, by that State (or a political subdivision thereof) in fiscal year 1977 as cash payments to the needy in that State under a program of general assistance or other similar income maintenance program supported by State or local funds (determined in accordance with such criteria as the Secretary may by regulation prescribe).

"(C) For purposes of subparagraph (A), the 'alternate State maintenance of effort requirement' has been satis-

fied when the State has (or the Secretary determines that the State will have by the close of the fiscal year) done the following:

"(i) made the payment to the Secretary in the amount required by subsection (a),

"(ii) made payments, or entered into an agreement with the Secretary under section 2121 for the making of payments to each eligible household unit receiving payments under section 2104 (or who would but for their available income be eligible for payments under such section) up to the amount (if any) that would have been payable to such a unit with the same available income under the plan of such State approved under part A of title IV, as in effect for the month before the effective date of this section, or up to the amount (if any) that would have been payable with respect to an aged, blind or disabled individual with the same available income as a supplementary payment of such State under section 1616 for the month prior to the effective date of this title, such amounts having been adjusted for use in such year,

"(iii) paid the amount required for that fiscal year for the purpose of making wage supplements under section 956 of the Comprehensive Employment and Training Act of 1973,

"(iv) made payments to aged, blind, and disabled individuals who received a payment under section 1602 or 1616 of this Act or under section 212 of Public Law 93–66 (as such sections were in effect prior to the effective date of this section) for the month prior to the effective date of this section, in an amount sufficient to assure that the sum of the payment under section 2104 with respect to each such individual, his available income (as defined in section 2106), and such supplementary payment will not be less than the sum, adjusted for use in such fiscal year (as defined in subsection (d)(6)), of such individual's benefit under title XVI, his other income not excluded under section 1612(b) of this Act, and the amount of the State supplementary payment he received for the month before the effective date of this section; and

"(v) made payments to at least 75 per centum of the eligible household units that received a payment under the plan of that State approved under part A of title IV for the month prior to the effective date of this section, in an amount sufficient to assure that the sum of the payment under section 2104 with respect to each such household unit, its available income (as defined in section 2106), and such payment will not be less than the sum (adjusted for use in such fiscal year as defined

in subsection (d) (6)) of the household unit's income which was taken into consideration by the State, as required by section 402 (a) (7) and (8) of this Act, and the amount of aid to families with dependent children it received under the State's plan approved under part A of title IV for the month before the effective date of this section.

"(2) In the second fiscal year in which this title is in effect, in lieu of the amount specified in paragraph (1) (A), the State is required to expend an amount equal to the sum of 75 per centum of its primary maintenance of effort amount, adjusted for use in such second, rather than the first, fiscal year (as defined in subsection (d) (6)) and its allotment of Federal funds for emergency needs under part B of title XX for that second fiscal year or to meet the alternate State maintenance of effort requirement.

"(3) In the third fiscal year in which this title is in effect, in lieu of the amount specified in paragraph (1) (A), the State is required to expend an amount equal to the sum of 65 per centum of its primary maintenance of effort amount, adjusted for use in such third, rather than the first, fiscal year and its allotment of Federal funds for emergency needs under part B of title XX for that third fiscal year, or to meet the alternate State maintenance of effort requirement.

"(c) In determining whether a State has expended in

any fiscal year the amount based on the primary maintenance of effort amount prescribed in subsection (b) for income maintenance and related purposes, the Secretary shall include the following expenditures by the State in that fiscal year as expenditures which qualify toward achieving that amount—

"(1) the amount paid to the Secretary by the State under subsection (a),

"(2) the non-Federal share of expenditures for State supplementation of the maximum payable amounts under an agreement under section 2121 (as defined in subsection (d) (3)),

"(3) the amount paid by the State in the fiscal year for the purpose of wage supplements under section 956 of the Comprehensive Employment and Training Act of 1973;

"(4) non-Federal expenditures for payments to or for the use of an individual, the eligibility for, or the amount of which, is dependent upon the financial resources of that individual or his need for financial assistance,

"(5) the non-Federal share of expenditures for child care services (as defined in subsection (d) (5)), but only to the extent that that amount exceeds the non-Federal expenditures for child care services in the fiscal

year immediately preceding the fiscal year for which this title first became effective,

"(6) expenditures for emergency needs under the State plan approved under part B of title XX, and

"(7) the costs of administration paid by the State (or a political subdivision thereof) related to expenditures described in paragraph (4) or (6).

"(d) As used in this title—

"(1) the term 'non-Federal share of expenditures as aid to families with dependent children' with respect to any State in fiscal year 1977 means the difference between—

"(A) the total expenditures under the plan of that State approved under part A of title IV as aid to families with dependent children in quarters in that year, and

"(B) the total of the amounts determined under section 403 or section 1118, and under section 9 of the Act of April 9, 1950, with respect to those expenditures in that quarter in that fiscal year but without regard to any reductions which may have been applied to those amounts pursuant to subsection (c), (f), (g), or (h) of section 403;

"(2) the term 'non-Federal share of State supplementary payments for the aged, blind, and disabled' in

the case of any State (other than the Commonwealth of Puerto Rico, Guam, and the Virgin Islands) means the difference between—

"(A) the total amount expended in fiscal year 1977 (whether by that State or a political subdivision thereof) as optional State supplementation (as defined in section 1616(a)) and as mandatory State supplementation (as defined in section 212 of Public Law 93–66) (as those sections were in effect prior to the effective date of this section), and

"(B) any amount that State would have had to pay the Secretary with respect to such optional or mandatory State supplementation but for the operation of section 401 of Public Law 92–603;

"(3) the term 'non-Federal share of expenditures for State supplementation of the maximum payable amounts under an agreement under seection 2121' means, in the case of any State in a fiscal year, the total expenditures for State supplementation of the maximum payable amounts under an agreement under section 2121 made in that year to eligible household units residing in the State reduced by the sum of—

"(A) the Federal share of such expenditures determined under section 2125, and

"(B) any amount the State would have been

required to expend for such supplementary payments but for the operation of section 2127;

"(4) the term 'non-Federal share of expenditures for emergency assistance to needy families with children' with respect to any State in fiscal year 1977 means 50 per centum of the total expenditures for that year under the plan of that State approved under part A of title IV as emergency assistance to needy families with children;

"(5) the term 'non-Federal share of expenditures for child care services' in the case of any State in a fiscal year means the total amount expended in that year for the provision of child care services under the plan of that State approved under part A of title XX, reduced by amounts paid by the Secretary to that State under section 2002 with respect to those services; and

"(6) the term 'adjusted for use in' a particular year with respect to a specified amount (or amounts) means the amount (or amounts) multiplied by the ratio of (A) the arithmetical mean of the Consumer Price Index for Urban Wage Earners and Clerical Workers for months in the fiscal year for which the amount is to be used or applied by the Secretary to (B) the arithmetical mean of that index for months in the fiscal year with reference to which the amount was ascertained.

"(e) If this title first becomes effective beginning with a month other than the first month of a fiscal year, then for that first (partial) fiscal year all amounts referred to in this section or in section 2127 which are determined by considering total expenditures for the 12 months in fiscal year 1977 shall be adjusted for use in that first fiscal year by multiplying each such amount by the ratio that the number of months (in such first fiscal year) that this title is in effect bears to 12.

"(f) (1) For purposes of applying the provisions of this section and of section 2127 to the Commonwealth of Puerto Rico, Guam, and the Virgin Islands, all references in such sections to 'supplemental security income benefits' or 'State supplementary payments', either under section 1602 or section 1616 or under section 212 of Public Law 93-66, shall be deemed to be references to payments under the plan of such State approved under title I, X, XIV, or XVI (as in effect in those jurisdictions) of this Act, as such plan was in effect for the month immediately preceding the month beginning with which this title becomes effective; the non-Federal share of payments under title I, X, XIV, or XVI (as so in effect) for a fiscal year with respect to those three States means the difference between total expenditures for quarters in that fiscal year and the amount determined for that State under sections 3 (a) (2), 1003 (a) (2),

1403 (a) (2), and 1603 (a) (2); and references to 'income not excluded under section 1612 (b) (2) of this Act' shall be deemed to be references to income required to be taken into consideration under the plan of such State approved under title I, X, XIV, or XVI of this Act, as such plan was in effect for the month preceding the month for which this title becomes effective.

"(2) This section and section 2127 are not applicable to the Commonwealth of the Northern Mariana Islands.

"LIMITATION ON FISCAL LIABILITY OF STATES

"SEC. 2127. (a) (1) If a State, in the first fiscal year in which this program is in effect, makes expenditures for income supplements and services related to the purposes of this title (as defined in subsection (c)) in an amount in excess of the amount based on the primary maintenance of effort amount which a State is required to spend under section 2126 (b) (1) (A), the Secretary shall pay to that State an amount equal to that excess.

"(2) If, after application of paragraph (1), a State's expenditures for income supplements and services related to the purposes of this title in the first fiscal year exceed the sum of the amount specified in subsection (a) (1) and 90 per centum of the non-Federal share of administrative costs of a State's plan for aid to families with dependent children (as defined in subsection (c) (2)), adjusted for use in that

fiscal year (as defined in section 2126(d) (6)), the Secretary shall pay to the State an amount equal to that excess.

"(3) As a condition of any State receiving a payment under paragraph (1) or (2) of this subsection, or under subsection (b), the State must agree to pay to any political subdivision thereof which participates in the expenditures for income supplements and services related to the purposes of this title a portion of such payment which bears the same ratio to such payment as such political subdivision's financial contribution to such expenditures bears to the total amount of such expenditures.

"(b) In the second, third, fourth, and fifth fiscal years subsequent to the first fiscal year that this program is in effect, the payments provided for in subsection (a) shall be adjusted as follows:

"(1) (A) in the second fiscal year that this program is in effect, the Secretary shall pay to a State an amount equal the excess of (i) its expenditures for income and services related to the purposes of this title, over (ii) the sum of that State's primary maintenance amount (as defined in section 2126(b) (1) (B) and adjusted for use in that year) and its allotment of Federal funds for emergency needs under part B of title XX for that year;

"(B) in the third, fourth, and fifth fiscal years that this program is in effect, the Secretary shall pay to a

State an amount equal to the excess of (i) its expenditures for income and services related to the purposes of this title, over (ii) the sum of (I) 110, 130, and 150 per centum, respectively, of that State's primary maintenance amount (as defined in section 2126(b)(1)(B), adjusted for use in such third, fourth, and fifth fiscal years, respectively, and (II) its allotment of Federal funds for emergency needs under part B of title XX for such third, fourth, and fifth fiscal years, respectively.

"(2)(A) If, after application of paragraph (1), a State's expenditures for income supplements and services related to the purposes of this title in the second fiscal year exceed 90 per centum of the sum of (i) the State's primary maintenance of effort amount (as defined in section 2126(b)(1)(B)), and (ii) the non-Federal share of a State's administrative costs of its plan for aid to families with dependent children, such sum having been adjusted for use in such second fiscal year, further increased by the State's allotment of Federal funds for emergency needs under part B of title XX for such second fiscal year, the Secretary shall pay to the State an amount equal to that excess; and

"(B) if, after application of paragraph (1), a State's expenditures for income supplements and services

related to the purposes of this title in the fourth and fifth fiscal years exceed 95 per centum of the sum of (i) the State's primary maintenance of effort amount (as defined in section 2126(b)(1)(B)), and (ii) the non-Federal share of a State's administrative costs of its plan for aid to families with dependent children, such sum having been adjusted for use in such third, fourth, and fifth fiscal years, respectively, further increased by the State's allotment of Federal funds for emergency needs under part B of title XX for such third, fourth, and fifth fiscal years, respectively, the Secretary shall pay to the State an amount equal to that excess.

"(c) As used in this section—

"(1) the term 'expenditures for income supplements and services related to the purposes of this title' with respect to a State in a fiscal year means the sum of—

"(A) the amount paid to the Secretary by that State with respect to that year under section 2126(a);

"(B) the non-Federal share of expenditures for State supplementation of the maximum payable amounts under an agreement under section 2121 (as defined in section 2126(d)(3)), but not including (i) expenditures with respect to supplemental payments to any class of household units specified in

clauses (I) through (VII) if the supplemental payments to a unit in that class are determined in a manner inconsistent with the applicable limits prescribed in section 2125:

"(I) units all the adult members of which are aged, blind, or disabled individuals,

"(II) units with only one adult member who is not aged, blind, or disabled, that includes at least one child under the age of 7 years,

"(III) units with only one adult member who is not aged, blind, or disabled, that includes no child under the age of 7 years and at least one child under the age of 14 years,

"(IV) units with only one adult member who is not aged, blind, or disabled, that include no child under the age of 14, and at least one child,

"(V) units with at least two adult members, one of whom is available for employment, and at least one child,

"(VI) units with at least two adult members neither of whom is available for employment by reason of incapacity or custodial responsibility, and at least one child, and

"(VII) units having one member (if that member is not aged, blind, or disabled, or incapacitated) or units having two or more adults, at least one of whom is available for employment, and no child, and

(ii) any expenditures which result in payments in excess of the amount (if any) that would have been payable to a unit with the same available income, under the plan of such State approved under part A of title IV, would have been paid as a supplementary payment of such State under section 1616, or would have been received by a household unit within that State under a program of general assistance or other similar income maintenance program described in section 2126(a)(2), whichever may be applicable, for the month prior to the month this title becomes effective, adjusted for use in that fiscal year;

"(C) the amount paid by the State in that fiscal year for the purpose of wage supplements under section 956 of the Comprehensive Employment and Training Act of 1973;

"(D) non-Federal expenditures for payments to aged, blind, or disabled individuals who received a payment under section 1602 or 1616 of this Act

or under section 212 of Public Law 93-66 (as such sections were in effect prior to the effective date of this section) for the month prior to the effective date of this section in the least amount sufficient to assure that the sum of the payment under section 2104 with respect to each such individual, his available income (as defined in section 2106), and such supplementary payment will not be less than the sum, adjusted for use in such fiscal year (as defined in section 2126(d)(6)), of such individual's benefit under title XVI, his other income not excluded under section 1612(b), and the amount of the State supplementation he received for the month before the effective date of this section;

"(E) in the case of subsections (a)(1) and (b)(1), 75 per centum of the non-Federal expenditures (or, in the case of subsections (a)(2) and (b)(2), all of such expenditures) for payments to eligible household units that received a payment under the plan of that State approved under part A of title IV (as such part was in effect prior to the effective date of this section) for the month prior to the effective date of this section in the least amount sufficient to assure that the sum of the payment under section 2104 with respect to

each such household unit, its available income (as defined in section 2106), and such supplementary payment will not be less than the sum (adjusted for use in such fiscal year as defined in section 2106(d)(6)) of the household unit's income which was taken into consideration by the State, as required by section 402(a)(7) and (8) and the amount of aid to families with dependent children it received under the State's plan approved under part A of title IV for the month before the effective date of this section; and

"(F) expenditures by the State for emergency needs under part B of title XX to the extent they do not exceed the State's allotment under such part B for that fiscal year; and

"(2) the term 'non-Federal share of administrative costs of a State's plan for aid to families with dependent children' with respect to a State means the total amount expended by that State in fiscal year 1977 for the proper and efficient administration of its plan approved under part A of title IV reduced by the amount determined under section 403(a)(3) with respect to such expenditures (without regard to any reductions which may have been imposed under subsection (c), (f), (g), or (h) of section 403).

"STATE PLANS FOR SERVICES TO DISABLED CHILDREN

"SEC. 2128. (a) (1) The Secretary shall by regulation prescribe criteria for approval of State plans for—

"(A) assuring appropriate counseling for disabled children referred pursuant to section 2103 (b) and their families,

"(B) establishment of individual service plans for such disabled children, and prompt referral to appropriate medical, educational, and social services,

"(C) monitoring to assure adherence to such service plans, and

"(D) provision for such disabled children who are 6 years of age and under, or who have never attended public school and require preparation to take advantage of public educational services, of medical, social, developmental, and rehabilitative services, in cases where such services reasonably promise to enhance the child's ability to benefit from subsequent education or training, or otherwise to enhance his opportunities for self-sufficiency or self-support as an adult.

"(2) Such criteria shall include—

"(A) administration—

"(i) by the agency administering the State plan for crippled children's services under title V of this Act, or

"(ii) by another agency which administers programs providing services to disabled children and which the Governor of the State concerned has determined is capable of administering the State plan described in the first sentence of this subsection in a more efficient and effective manner than the agency described in clause (i) (with the reasons for determination being set forth in the State plan described in the first sentence of this subsection);

"(B) coordination with other agencies serving disabled children; and

"(C) establishment of an identifiable unit within such agency which shall be responsible for carrying out the plan.

"(b) (1) The Secretary shall, subject to the limitations imposed by paragraphs (2) and (3), pay to the State agency administering a State plan of a State under subsection (a) of this section the costs incurred in each fiscal year, in carrying out the State plan approved pursuant to such subsection.

"(2) (A) Of the funds paid by the Secretary with respect to costs, incurred in any State, to which paragraph (1) applies, not more than 10 per centum thereof shall be paid with respect to costs incurred with respect to activities described in subsections (a) (1) (A), (B), and (C).

"(B) Whenever there are provided pursuant to this section to any child services of a type which is appropriate for children who are not blind or disabled, there shall be disregarded for purposes of computing any payment with respect thereto under this subsection so much of the costs of such services as would have been incurred if the child involved had not been blind or disabled.

"(C) The total amount payable under this subsection for any fiscal year, with respect to services provided in any State, shall be reduced by the amount by which the sum of the public funds expended (as determined by the Secretary) from non-Federal sources for services of the type involved for such fiscal year is less than the sum of such funds expended from such sources for services of such type for the fiscal year ending June 30, 1976.

"(3) No payment under this subsection with respect to costs incurred in providing services in any State for any fiscal year shall exceed an amount which bears the same ratio to $30,000,000 as the under age 7 population of such State bears to the under age 7 population of all the States. The Secretary shall promulgate the limitation applicable to each State for each fiscal year under this paragraph on the basis of the most recent satisfactory data available from the Department of Commerce not later than 90 nor earlier than 270 days before the beginning of such year.

"PART C—ADMINISTRATION OF INCOME SUPPLEMENT AND INCOME SUPPORT PROGRAM

"APPLICATION

"SEC. 2131. (a) Each household unit seeking payment under this title must apply therefor in such form and include in such application such information required in the administration of this Act as the Secretary may by regulation prescribe. A household unit has filed an application, for purposes of this section, on the day that an individual described in the following sentence makes, in person and at any location designated by the Secretary to receive applications or sends written request received at such location containing what may reasonably be interpreted as a request for payment under this title. The application may be filed by any adult individual claiming to be a member of the household unit on behalf of which the application is filed, or by any other person, on behalf of a household unit containing no adult member able to file, and shall apply with respect to all members of the household unit.

"(b) The application prescribed by the Secretary under subsection (a) shall include (1) those provisions necessary for each adult member of the household unit to assign to the State in which he resides any rights to support from any other person such member may have in his own behalf or in behalf of any other member of the household unit, and (2)

the agreement of such adult member to cooperate with the State (A) in establishing the paternity of a child born out of wedlock who is a member of the same household unit, and (B) in obtaining support payments for such member and such child, or in obtaining any other payments or property due such member or child, unless (in either case) such member is found to have good cause for refusing to cooperate as determined in accordance with standards prescribed by the Secretary, which standards shall take into consideration the best interests of such child. In the case of an adult member (referred to in the preceding sentence) who does not take all actions necessary to implement the application provisions required by this subsection, the maximum payable amount of such household unit is determined as though such member were not in that unit.

"(c) For purposes of this section, an application is effective as of the first day of the month in which it was filed, and is an application for benefits for each month beginning with the second month preceding the month of application and ending with (1) the month in which the Secretary denies the application, (2) the sixth consecutive month in which no amount is payable to a household unit which had previously been determined to be an eligible household unit, or (3) the month in which of the application is withdrawn (in accordance with such rules as the

Secretary may prescribe), whichever occurs first. Thereafter, payments under this title may only be made upon the filing of a new application.

"DETERMINATION OF ELIGIBILITY FOR AND AMOUNT OF PAYMENT

"SEC. 2132. (a) A household unit's eligibility for and amount of any payment under this title for any month shall be promptly determined at such time or times after the end of that month as the Secretary may provide.

"(b) A determination under subsection (a) may not be reopened or reconsidered for any reason after the expiration of twelve months following the close of the fiscal year in which that determination is made if—

"(A) the individual affected or an individual representing the household unit affected had notice of the determination and did not seek timely consideration of this determination under section 2136, or

"(B) timely consideration of the determination was sought under section 2136 and the revised determination has become final.

"PAYMENTS OF BENEFITS

"SEC. 2133. (a) The Secretary shall make payments with respect to a household unit determined to be eligible therefor under this title at such time or times and in such installments as will best effectuate the purposes of this title.

"(b) The Secretary may make payments under this title to the member of the household unit whom he determines to be the principal earner of the unit, to any other adult member of the unit, or to two or more adult members of the unit in accordance with criteria prescribed by the Secretary to assure that all members of the eligible household unit receive the use and benefit of the payment. The Secretary may make all or any portion of the payment to any person (including a public or private agency) not a member of the unit who is interested in or concerned with the welfare of one or more members of the household unit upon the request of any member of the unit or upon the Secretary's finding that such manner of payment is necessary in order to insure the availability of the payment on behalf of the unit or any member thereof.

"(c) The Secretary shall make provision for notice (including the transmittal of all relevant information), not later than the time of the first payment under this title, to the child support collection agency (established pursuant to part D of title IV), of the application for payment under this title with respect to a child who has been deserted or abandoned by a parent (including a child born out of wedlock without regard to whether the paternity of such child has been established).

"(d) The maximum payable amount of an eligible

household unit with respect to any individual who is under age 65 and has been determined by the Secretary to be blind (as defined by section 2110(4)(B)) or disabled (as defined by section 2110(4)(C)), and who ceases to be blind or be under such disability shall not be reduced on account of such cessation until the third month following the month in which such blindness or disability ceases.

"REPORTS AND FURNISHING OF INFORMATION

"SEC. 2134. (a) The member of an eligible household unit who has filed an application for payment under this title or, if different, the principal earner of an eligible household unit, or such other member as the Secretary may specify, shall file periodic reports on income and other relevant information, such as household unit composition and assets, as may be required by the Secretary and shall keep such other records, and file such information in such form and at such time or times as the Secretary may by regulation prescribe for the effective and efficient administration of this title.

"(b) In case of failure by an individual to keep records or furnish information as may be required by the Secretary under subsection (a), the Secretary may apply such presumptions or rules as he finds necessary to carry out the program, and, in the case of further failure, may suspend payment until such documentation of relevant facts and

circumstances as he may find necessary, shall have been provided.

"OVERPAYMENTS AND UNDERPAYMENTS

"SEC. 2135. (a) Whenever the Secretary finds that more or less than the correct amount, as determined in accordance with section 2104, has been paid for any month with respect to an eligible household unit, proper adjustment shall, subject to the suceeding provisions of this part, be made by appropriate adjustments in future payments under this title with respect to such unit, by appropriate adjustments to future payments due a member of the unit under any other title of this Act administered by the Secretary if the action of such member is found to have caused the overpayment, or by recovery (in an amount that represents an equitably proportionate share of the total overpayment, as determined in accordance with regulations of the Secretary) from the unit or from a member or the estate of a member of the unit if the Secretary determines that the action of such member caused the overpayment. The Secretary shall make such provision as he finds appropriate in the case of payment of more than the correct amount with a view to avoiding penalizing any member of such unit in connection with the overpayment, if adjustment or recovery on account of such overpayment in such case would defeat the purposes of this title, or be against equity or good con-

science, or (because of the small amount involved) would impede its effective or efficient administration.

"(b) If, in the case of any individual receiving payment from the Secretary under section 1602 or under an agreement under section 1616 of this Act for the month immediately preceding the month with which this title becomes effective, overpayments were made under such sections which have been neither waived nor fully recovered by the Secretary, the Secretary may make appropriate adjustments in future payments to the household unit of which such individual is a member in order to recover the remaining overpaid amount.

"DISAGREEMENT WITH DETERMINATIONS OF THE SECRETARY

"SEC. 2136. (a) The Secretary shall prescribe by regulation procedures for resolving any disagreement by an affected individual with a determination under this title affecting the eligibility of or the amount of payment to an eligible household unit. The regulation shall include provision for (1) prompt written notice of the determination to the individual who has applied for benefits on behalf of the household unit (or to the member required under section 2134(a) to submit periodic reports); (2) an opportunity for the affected individual to obtain an oral explanation of the basis for the determination; (3) procedures for resolv-

ing disputed issues remaining after resort to the procedures provided under clause (2), including, with respect to disputed issues of fact, an opportunity for an affected individual (A) to present his views and evidence to the Secretary or to an impartial individual designated by the Secretary, (B) to review any materials or evidence relied upon by the Secretary in making the determination, and (C) to confront and cross-examine adverse witnesses upon whose evidence the determination is based in whole or in part; (4) the issuance of a revised determination reaffirming or modifying the Secretary's initial determination, together with an explanation of the basis for that revised determination; and (5) procedures for administrative review of such determinations. The regulations shall also provide for the prompt issuance of supplementary payments or other actions to insure that an affected individual or household unit that has been receiving payments continues to receive payments without reduction by reason of the disputed determination at previous levels pending the issuance of a revised determination. Any portion of a payment made pending the issuance of a revised determination solely by reason of the preceding sentence shall be subject to subsequent adjustments or recovery.

"(b) If the Secretary enters into an agreement with a State under section 2138(a), he may reserve the right to

review and revise a determination made by the State under subsection (a).

"(c) An affected individual may obtain review of a final decision by the Secretary affecting the eligibility for or the amount of payment to a household unit, by filing a civil action, within sixty days of the date of the issuance of the Secretary's final decision, in the district court of the United States for the district in which such individual resides or has his principal place of business. Such district court shall have jurisdiction to affirm, modify, or set aside the Secretary's order, under the standard of review set forth in section 706 of title 5, United States Code, or to remand the case to the Secretary for the taking of additional evidence or for other appropriate proceedings.

"FURNISHING OF INFORMATION BY OTHER FEDERAL AGENCIES

"SEC. 2137. (a) The head of any Federal agency, including the Internal Revenue Service, the Veterans' Administration, and the Railroad Retirement Board, shall, at the written request of the Secretary, provide any records within the control of the agency as found by the Secretary to be needed to determine eligibility for or amount of payments under this title, or for verifying information related thereto with respect to any individual or household unit seeking payment under this title. Use and disclosure of information received by the

Secretary under this section is restricted to purposes directly connected with the administration of this Act.

"(b) With respect to any certification submitted to the Secretary by the Secretary of Labor with respect to matters described in section 2105(d) (pertaining to computation for units subject to work requirements), the Secretary shall treat the certification as effective from the date by which it is required by law or regulation to be submitted, or the date specified by the certification, as may be applicable.

"STATE AGREEMENT TO RECEIVE APPLICATIONS AND DEVELOP ELIGIBILITY AND PAYMENT INFORMATION

"SEC. 2138. (a) The Secretary, at the request of a State, shall enter into a written agreement with the State specifying in full the actions which the State will take to receive applications under this title, verify the information contained therein, secure any additional information that may be necessary to determine the composition and eligibility of the household unit and the income and assets of such unit, receive and review the periodic reports required under section 2134 and as necessary verify any information contained in those reports, receive any notice of disagreement by an individual with a determination by the Secretary and, in accordance with the procedures specified by the Secretary under section 2136, hear and consider the individual's disagreement and make a revised determination if

appropriate and provide for the performance of such related functions as the Secretary may find necessary. All information received (including the fact that a household unit has failed to file a required periodic report) shall be communicated to the Secretary at such time or times and in such manner as may be set out in the agreement between the State and the Secretary, consistent with regulations prescribed by the Secretary for the implementation of this section. The Secretary may, however, to the extent he deems it consistent with the efficient administration of the program established under this title, retain responsibility in any State for the administration of that program with respect to aged, blind, and disabled individuals who received supplemental security income benefits under title XVI for the month before the month that this title became effective.

"(b) All determinations made by the State under an agreement with the Secretary under subsection (a) shall be made in accordance with the regulations or other written guidelines of the Secretary adopted under this title.

"(c) The Secretary shall promulgate regulations prescribing the general content and procedures to be followed by the State in the administration of the agreement under subsection (a). Such regulations may include rules pertaining to all or any of the following matters:

"(1) prospective budget submissions by the State,

"(2) principles or criteria for the establishment of allowable administrative costs and applicable cost allocation rules,

"(3) fiscal control procedures which the State will be required to establish,

"(4) standards with respect to administrative structure and personnel matters, and

"(5) standards to be applied procedures to be followed in evaluating the State's administrative performance, including quality control procedures, fiscal reports, and access of appropriate Federal officials to State records relating to the administration of the program established under this title.

"(d) (1) Any State that has notified the Secretary under section 107(a) of the Better Jobs and Income Act of its intent to enter into an agreement with the Secretary under subsection (a) must agree to (A) administer or supervise the administration of the program in all political subdivisions of the State, and (B) administer or supervise the administration of the program for at least 12 months after it first becomes effective, and (C) advise the Secretary 12 months in advance and by written notice from the chief executive officer of the State, should the State wish to terminate the agreement. The Secretary may undertake administration of the program within the State at a time earlier

than 12 months from the date of the notice if he determines it to be feasible.

"(2) If the Secretary finds that, in the implementation of the agreement entered into under subsection (a), the State has failed adequately to carry out its functions, or he shall so advise the State and set a schedule under which the State shall take corrective action. If the State fails to take corrective action in accordance with the schedule the Secretary may, terminate the agreement (A) with respect to some or all of the household units within the State having their place of residence within the boundaries of a reservation of an Indian tribe, as defined in the Indian Self-Determination Act (25 U.S.C. 4506(b)), or (B) in its entirety, upon such notice to the State as he finds necessary to prepare for Federal administration, but in no event less than 90 days.

"(c)(1) The Secretary shall prescribe the time or times at which he will make payments to the State for 90 per centum of the cost of carrying out the agreement under subsection (a) less 10 per centum of the cost on any Indian reservation as to which the agreement has been terminated. If the Secretary finds, upon review of the accuracy and effectiveness of the administration by the State of the agreement, that the State's performance has been of unusually or exceptionally high level, he may increase such percentage up to

110 per centum of the established and allowable costs, the amount of such increase to be related to the quality of the State's performance.

"(2) Notwithstanding paragraph (1), if the Secretary administers the program under this title with respect to household units described in subsection (d) (2) (A), at the time or times prescribed in paragraph (1), the State shall pay to the Secretary an amount equal to 10 per centum of the cost of administering the program with respect to those household units, and the Secretary shall not make payments under that paragraph in excess of 90 per centum of the cost of that State in carrying out the agreement.

"INFORMATION AND REFERRAL

"SEC. 2139. (a) The Secretary shall promptly notify the Secretary of Labor of each individual included as a member of an eligible household unit in an application for payment under this title who is likely to be eligible for subsidized work or training under title IX of the Comprehensive Employment and Training Act of 1973.

"(b) The Secretary shall provide for, as appropriate, the furnishing of information to and the referral of any member of a household unit concerning his possible eligibility for or the availability of subsidized work or training under title IX of the Comprehensive Employment and Training Act of 1973, medical assistance under a State plan approved

under title XIX, services under a State plan under part A of title XX, assistance to meet the living expenses of needy families and individuals under a State plan under part B of title XX, and other aid or services that may be appropriate for such individual.

"ASSURANCES ON BENEFIT REDUCTION RATES

"SEC. 2140. Each State receiving financial assistance pursuant to this title shall, in accordance with regulations issued by the Secretary with the full participation of the Secretary of Labor, file a written assurance that it will not adopt or administer supplementation programs or other programs of financial assistance to household units receiving payments under this title which establish or result in the imposition of benefit reduction rates which exceed the maximum benefit reduction rates specified in section 2125. If the Secretary determines, after providing notice and opportunity for a hearing, that a State has violated the terms of the assurance, he shall impose appropriate sanctions pursuant to such regulations, including reducing Federal payments to the State under this Act sufficient to assure that the State will remedy the violation.

"MISCELLANEOUS FEDERAL-STATE ADMINISTRATIVE PROVISIONS

"SEC. 2141. (a) In any case in which a State has failed to pay the Secretary at the time prescribed the amount determined in accordance with any term of the

agreement entered into under section 2121 or under subsection (c) of this section, or the amount required under section 2126(a) or section 2138(e)(2), the Secretary, after reasonable notice to the State and opportunity for hearing, may appropriate to his use under this title, in lieu of that payment or those payments, any amount (not in excess of an amount equal to that payment or those payments) otherwise payable to the State or any of its political subdivisions under this Act by the United States. Notwithstanding any law to the contrary, the Secretary, in execution of this subsection, shall notify the Secretary of the Treasury with respect to any such amount payable to the State under this Act but not yet expended, and the Secretary of the Treasury shall credit such amount to the appropriation for this title.

"(b) There shall be no reduction or adjustment in any amount payable by the Secretary to a State, or by a State to the Secretary, under this title by reason of errors made on the part of either the State or the Secretary in connection with determinations of eligibility for or amount of the payment to be made under this title with respect to any individual or household unit.

"(c) If, within 12 months after this title becomes effective, it comes to the attention of the Secretary that less than the correct amount of aid to families with dependent

children, supplemental security income benefits, or State supplementary payments under an agreement under section 1616 of this Act, for any month within the 12-month period prior to the month with which this title becomes effective, has been paid, he shall pay such benefits and, subject to an agreement by the State to reimburse him for the amount of such State supplementary payments, or one-half the amount of aid to families with dependent children payable, make such payments or pay such aid.

"DETERMINATIONS OF BLINDNESS AND DISABILITY

"SEC. 2142. (a) Subject to subsection (b), the Secretary may, if he finds it will facilitate the making of payments under this title, make arrangements with one or more agencies or other organizations for the determination of blindness or disability under section 2110 of an individual applying for payments under this title. Arrangements under this subsection for determinations of blindness and disability, if made with the agency of a State which makes such determinations for the Secretary under title II, shall generally be in the same manner and subject to the same conditions as provided with respect to disability determinations under section 221, except that the Secretary may reverse a decision in whole or in part, and if he finds that the State has failed to make accurate determinations in a significant number of cases, or that the State agency has not made reasonably prompt

determinations in a significant number of cases, the Secretary may, upon 90 days' notice to the State, terminate the agreement with the State and make other arrangements for the performance of all or any portion of the blindness and disability determination function in that State.

"(b) In determining, for purposes of this title, whether an individual is blind, there shall be an examination of such individual by a physician skilled in the diseases of the eye or by an optometrist, whomever the individual may select.

"ADMINISTRATIVE ARRANGEMENTS

"SEC. 2143. The Secretary may enter into contracts, or make such administrative or other arrangements, with individuals or with agencies or organizations, as he finds appropriate to enable him to carry out the program established under this title in the most effective and efficient manner.

"PENALTIES FOR FRAUD

"SEC. 2144. Whoever—

"(1) knowingly and willfully makes or causes to be made any false statement or representation of a material fact in any application for any payment under this title,

"(2) at any time knowingly and willfully makes or causes to be made any false statement or representation of a material fact for use in determining rights to any such payment,

"(3) having knowledge of the occurrence of any event affecting (A) his initial or continued right to any such payment, or (B) the initial or continued right to any such payment of any other individual in whose behalf he has applied for or is receiving such payment, conceals or fails to disclose such event with an intent fraudulently to secure such payment either in a greater amount or quantity than is due or when no such payment is authorized, or

"(4) having made application to receive any such payment for the use and benefit of another and having received it, knowingly and willfully converts such payment or any part thereof to a use other than for the use and benefit of such other person, shall be guilty of a misdemeanor and upon conviction thereof shall be fined not more than $5,000 or imprisoned for not more than one year, or both.

"ADJUSTMENT OF PAYMENT AMOUNTS

"SEC. 2145. (a) Effective with respect to months beginning with the month in which section 2101 comes into effect, each individual amount under subsection (a), each increment for a household unit under subsection (b), and each reduction under subsections (c) (1) and (d) (1) of section 2105, the amount of $316.67 specified by section 2107 (b) (2), the amount of $158.33 specified by section

2124, and the amount of $25 specified in section 2102(c) are increased by an amount derived by multiplying that amount, increment, or reduction by the same percentage (rounded to the nearest one-tenth of 1 percent) as the percentage by which the Consumer Price Index for Urban Wage Earners and Clerical Workers for the third calendar quarter preceding the quarter in which occurs the month in which section w101 comes into effect exceeds that index for the calendar quarter ending March 31, 1978. The Consumer Price Index for a quarter is the arithmetical means of that index for the 3 months in that quarter.

"(b) The Secretary shall publish in the Federal Register the amount of each individual amount, increment, and reduction, as so increased, within 45 days of the close of the later quarter described in subsection (a).".

ASSISTANCE TO MEET EMERGENCY NEEDS

SEC. 102. (a) Title XX of the Social Security Act is amended—

(1) by adding "AND ASSISTANCE TO MEET EMERGENCY NEEDS" after "SERVICES" in the title,

(2) by inserting "PART A—SOCIAL SERVICES" as a caption between the caption of the title and the caption of section 2001,

32-235 O - 78 - 7

(3) by striking out "this title" each place it appears and inserting "this part" in lieu thereof, and

(4) by adding at the end of title XX the following new part:

"PART B—ASSISTANCE TO MEET EMERGENCY NEEDS

"APPROPRIATIONS AUTHORIZED

"SEC. 2011. (a) For the purpose of enabling each State to furnish assistance to meet the living expenses of needy families and individuals not met under title XXI of this Act, there is authorized to be appropriated for fiscal year 1981, and each fiscal year thereafter, a sum sufficient to make payments to States and territories under section 2012.

"(b) For the purpose of aiding States to furnish assistance to meet the living expenses of special categories of needy families and individuals not met under title XXI of this Act or from appropriations under subsection (a), there is authorized to be appropriated for fiscal year 1981, and each fiscal year thereafter, a sum of $20,000,000 to be used by the Secretary as provided under section 2016.

"PAYMENTS TO STATES

"SEC. 2012. (a) (1) From the sums appropriated therefor, the Secretary shall, subject to the provisions of this section and section 2013, pay to each State that has a plan approved under section 2013(d)(2), for each quarter, the total expenditures during that quarter for the provision of the

assistance described in section 2011, including expenditures for administration.

"(2) (A) (i) No payment (other than a payment with respect to a natural disaster or other occurrence described in paragraph (3)) with respect to any expenditure may be made under this section to any State except as provided by clauses (ii), (iii), and (iv).

"(ii) For the first fiscal year for which this part is effective, a payment to a State under this part may not exceed an amount equal to the product of—

"(I) $600,000,000, and

"(II) a fraction, the numerator of which is the amount determined under section 2126(b) (1) (B) (pertaining to the base for maintenance of State effort) with respect to that State, and the denominator of which is the sum of such amounts determined under that section with respect to the fifty States and the District of Columbia.

"(iii) For the second fiscal year for which this part is effective, a payment to a State under this part may not exceed the sum of an amount equal to 75 per centum of the amount determined under clause (ii), and 25 per centum of an amount equal to the product of—

"(I) $600,000,000, and

"(II) a fraction, the numerator of which is the pop-

ulation of the State, and the denominator of which is the population of the fifty States and the District of Columbia, during the most recent preceding calendar year for which the Secretary finds satisfactory data to be available.

"(iv) For each subsequent fiscal year for which this part is effective, clause (iii) applies, except that the terms '75 per centum' and '25 per centum', as used in that clause, are respectively deemed to be—

"(I) for the third fiscal year from which this part is effective, 50 per centum each;

"(II) for the fourth fiscal year for which this part is effective, 25 per centum and 75 per centum, respectively; and

"(III) for the fifth fiscal year for which this part is effective, and each subsequent fiscal year, 0.0 per centum and 100 per centum, respectively.

"(v) For purposes of this subparagraph (A), the term 'State' does not include the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, Guam, or the Virgin Islands.

"(B) (i) No payment (other than a payment with respect to a natural disaster or other occurrence described in paragraph 3)) with respect to any expenditure may be made under this section to the Commonwealth of Puerto Rico, the

Commonwealth of the Northern Mariana Islands, Guam, or the Virgin Islands except as provided by clause (ii).

"(ii) The payment to the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, Guam, and the Virgin Islands shall be made in the manner provided by subparagraph (A) (without regard to clause (v) thereof), except that the term 'State' as used in that paragraph is deemed to mean the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, Guam, or the Virgin Islands, as applicable; the term 'fifty States and the District of Columbia' as used in that paragraph is deemed to mean the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, Guam, and the Virgin Islands; and the ratios are determined with respect to $10,000,000 for the purposes of applying each clause of that subparagraph (A).

"(C) The Secretary shall promulgate the limitation applicable to each State for each fiscal year under this paragraph at the time and in the manner prescribed by section 2002(a)(2)(A) for payments under part A.

"(3) The President, upon the recommendation of the Secretary, may authorize the Secretary to pay to each State that has a plan approved under section 2013(d)(2), for each quarter, an amount equal to all or any portion of the expenditures during that quarter for the provision of the

assistance described in section 2011, including expenditures for administration, if the President finds, that by reason of natural disaster or other occurrence of regional or national significance beyond its control, a State has been subjected to an extraordinary increase, for any quarter, in its expenditures for emergency assistance. Upon his finding of such a natural disaster or other occurrence, the President may authorize the Secretary, in advance of State expenditures with respect to the disaster or occurrence, may enter into an agreement with any State under which he will reimburse those expenditures under this paragraph.

"(b) (1) Prior to the beginning of each quarter the Secretary shall estimate the amount to which a State will be entitled under this section for that quarter on the basis of a report filed by the State containing its estimate of the amount to be expended during that quarter with respect to which payment must be made under this section, together with an explanation of the basis for that estimate.

"(2) The Secretary shall then pay to the State, in such installments as he may determine, the amount so estimated, reduced or increased to the extent of any overpayment or underpayment that the Secretary determines was made under this section to the State for any prior quarter and with respect to which adjustment has not already been made under this subsection.

"(3) Upon the making of any estimate by the Secretary under this subsection, any appropriations available for payments under this section shall be deemed obligated.

"PROGRAM REPORTING; FILING OF CLAIMS

"SEC. 2013. (a) Each State that participates in the program established by this part shall make such reports concerning its expenditures under this part as the Secretary may by regulation require.

"(b) (1) If the Secretary, after reasonable notice and an opportunity for a hearing to the State, finds that there is a substantial failure to comply with any of the requirements imposed by subsection (a) of this section, he shall, except as provided in paragraph (2), notify the State that further payments will not be made to the State under section 2012 until he is satisfied that there will no longer be any such failure to comply, and until he is so satisfied he shall make no further payments to the State.

"(2) The Secretary may suspend implementation of any termination of payments under paragraph (1) for such period as he determines appropriate and instead reduce the amount otherwise payable to the State under section 2012 for expenditures during that period by 3 per centum for each requirement of subsection (a) of this section with respect to which there was a finding of substantial noncompliance and

with respect to which he is not yet satisfied that there will no longer be any such failure to comply.

"(c) The Secretary may not make any payment to a State under section 2012, unless the State has submitted its claim for that payment to the Secretary, in accordance with the Secretary's regulations. not later than the close of the second fiscal year succeeding the fiscal year in which the claim arose.

"PLAN OF ASSISTANCE

"SEC. 2014. (a) Each State that participates in the program established by this part shall have a plan applicable to its provision of assistance under this part that—

"(1) provides that an opportunity for a fair hearing before the appropriate State agency will be granted to any individual whose claim for assistance described in section 2012 is denied or is not acted upon with reasonable promptness;

"(2) provides that the use of disclosure of information obtained in connection with administration of the State's program described in section 2012 will be restricted to purposes directly connected with the administration of that program, the plan of the State approved under part A of this title, the income supplement and income support program established by title XXI, or the plan of the State approved under title XIX;

"(3) provides for the designation by the chief executive officer of the State or as otherwise provided by the laws of the State, of an appropriate agency that will administer or supervise the administration of the State's program for the provision of the assistance described in section 2012;

"(4) provides that no durational residency or citizenship requirement will be imposed as a condition to participation in the program of the State for the provision of the assistance described in section 2012;

"(5) provides that the State's program for the provision of the assistance described in section 2012 will provide only assistance to meet the living expenses of needy families and individuals and will be in effect in all political subdivisions of the State;

"(6) provides that no more than 15 per centum of any payment under section 2012 will be used for administrative expenses (as defined by regulations of the Secretary);

"(7) provides that the proposed and final program plan of the State under section 2015 will comply with such regulations as the Secretary may promulgate for the allocation of assistance among classes or categories of needy families and individuals;

"(8) provides that the State has in effect a plan

approved under part D of title IV and is operating a child support program in conformity with that plan; and

"(9) in the case of assistance provided under section 2012(a)(3), provides administrative arrangements to assure the coordination of that assistance with aid (if any) provided by other departments and agencies of the United States.

"(b) The Secretary shall approve any plan that complies with the provisions of subsection (a).

"(c)(1) No payment may be made under section 2012 to any State that does not have a plan approved under this section.

"(2) In the case of any State plan that has been approved by the Secretary under this section, if the Secretary, after reasonable notice and an opportunity for a hearing to the State, finds—

"(A) that the plan no longer complies with the provisions of subsection (a), or

"(B) that in the administration of the plan there is a substantial failure to comply with any such provision,

the Secretary shall, except as provided in paragraph (3), notify the State that further payments will not be made to the State under section 2012 until he is satisfied that there will no longer be any such failure to comply, and until he is so satisfied he shall make no further payments to the State.

"(3) (A) The Secretary may suspend implementation of any termination of payments under paragraph (2) for such period as he determines appropriate and instead reduce the amount otherwise payable to the State under section 2012 for expenditures during that period by 3 per centum for each paragraph of subsection (a) with respect to which there is a finding of noncompliance and with respect to which he is not yet satisfied that there will no longer be any such failure to comply.

"(B) In the event of a finding of noncompliance with paragraph (6) of subsection (a) with respect to any fiscal year, the Secretary, in lieu of any reduction of payment to a State under subparagraph (A), may reduce the payment to the State for a fiscal year under this part by an amount equal to the amount by which the State's expenditures for administrative expenses exceeded the amount allowable under paragraph (6). Any such reduction shall be offset against the State's administrative expenses under this part allowable under paragraph (6) for the year to which the offset is applied.

"STATE ADOPTION OF PROGRAM PLAN

"SEC. 2015. A State's program planning meets the requirements of this section if, for the purpose of assuring public participation in the development of the program for the

provision of the assistance described in section 2012 within the State—

"(1) the beginning of the fiscal year of either the Federal Government or the State government is established as the beginning of the State's program year; and

"(2) at least ninety days prior to the beginning of the State's services program year, the chief executive officer of the State, or such other official as the laws of the State provide, publishes and makes generally available (as defined in regulations prescribed by the Secretary after consideration of State laws governing notice of actions by public officials) to the public a proposed assistance for emergency needs program plan prepared by the agency designated pursuant to the requirements of section 2014 (a) (3) and, unless the laws of the State provide otherwise, approved by the chief executive officer, which sets forth the State's plan for the provision of the services described in section 2012 during that year, including—

"(A) the objectives to be achieved under the program,

"(B) the assistance to be provided under the program and the circumstances under which the State will provide that assistance, as the State may impose,

"(C) a description of the planning, evaluation, and reporting activities to be carried out under the program,

"(D) the sources of the resources to be used to carry out the program,

"(E) a description of the organizational structure through which the program will be administered,

"(F) a description of how the provision of assistance under the program will be coordinated with the assistance provided under the income supplement and income support program established by title XXI,

"(G) the estimated expenditures under the program, including estimated expenditures with respect to classes of individuals to whom assistance is to be provided, and a comparison between estimated non-Federal expenditures under the program and non-Federal expenditures for the provision of assistance described in section 2012 in the State during the preceding services program year, and

"(H) a description of the steps taken, or to be taken, to assure that the needs of all residents of, and all geographic areas in, the State were taken into account in the development of the plan; and

"(3) public comment on the proposed plan is accepted for a period of at least forty-five days; and

"(4) at least forty-five days after publication of the proposed plan and prior to the beginning of the State's program year, the chief executive officer of the State, or such other official as the laws of the State provide, publishes a final program plan prepared by the agency designated pursuant to the requirements of section 2014 (a) (3) and, unless the laws of the State provide otherwise, approved by the chief executive officer, which sets forth the same information required to be included in the proposed plan, together with an explanation of the differences between the proposed and final plan and the reasons therefor; and

"(5) any amendment to a final program plan is prepared by the agency designated pursuant to section 2014 (a) (3), approved by the chief executive officer of the State unless the laws of the State provide otherwise, and published by the chief executive officer of the State, or such other official as the laws of the State provide, as a proposed amendment on which public comment is accepted for a period of at least thirty days, and then prepared by the agency designated pursuant to section 2014 (a) (3), approved by the chief executive officer of the State unless the laws of the State provide otherwise,

and published by the chief executive officer of the State, or such other official as the laws of the State provide, as a final amendment, together with an explanation of the differences between the proposed and final amendment and the reasons therefor.

"ASSISTANCE FOR SPECIAL CATEGORIES OF NEEDY FAMILIES AND INDIVIDUALS

"SEC. 2017. (a) If the Secretary finds that a State has adopted, with respect to a fiscal year, a final program plan or plan amendment under section 2015 that makes provision for assistance to classes of needy families and individuals in exceptional need, or with respect to whom services provided under part A of this title are not readily available, such as migrants, he may, from amounts appropriated for that year under section 2011 (b), augment the amounts set aside by the State under that plan for any such class.

"(b) The Secretary may enter into an agreement with a State to pay to the State an amount authorized under subsection (a) in consideration of the State's adoption of a final program plan or plan amendment that meets the conditions of that subsection.

"(c) If the Secretary, after reasonable notice and an opportunity for a hearing to the State, finds that the State has failed to comply with that portion of its final program plan with respect to which he made any payment under sub-

section (a), he may offset all or any portion of that payment against any payment to the State under this part for any fiscal year.

"DEFINITIONS

"SEC. 2017. The following definitions apply to this part—

"(1) (A) The term 'assistance to meet the living expenses of needy families and individuals' means—

"(i) money payments, payments in kind, or such other payments as the agency designated under section 2014 (a) (3) may specify with respect to, or medical care or any other type of remedial care recognized under State law on behalf of, the families or individuals with respect to whom the assistance is provided, and

"(ii) such services as the Secretary may specify;

furnished for such period as the State may determine.

"(B) (i) Except as provided by clause (ii) of this subparagraph, the term 'needy families and individuals' excludes families (as defined by the Secretary), and individuals who are members of families, the monthly gross income of which exceeds twice the maximum payable amount under section 2105 for a family of like kind in the State adjusted, in accordance with regulations prescribed by the Secretary, to take into account the size of family. The term also excludes an individual who is not a member of a family if the individual's

income exceeds such limits, consistent with clauses (i) and (ii) of this subparagraph, as the Secretary shall prescribe.

"(ii) Notwithstanding clause (i), the term does not exclude an individual who is a member of a household unit eligible for, or receiving, a payment under title XXI.

"(2) As used in this part, the term 'State' means the fifty States, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, Guam, and the Virgin Islands.".

AMENDMENT TO EARNED INCOME TAX CREDIT

SEC. 103. (a) Subsection (a) of section 43 of the Internal Revenue Code of 1954 (relating to the allowance of a credit with respect to earned income) is amended to read as follows:

"(a) ALLOWANCE OF CREDIT.—In the case of an eligible individual, there is allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the sum of—

"(1) 10 percent of so much of the earned income for the taxable year as does not exceed $4,000, and

"(2) 5 percent of the amount by which such individual's earned income for the taxable year or the amount specified in subsection (c)(4), whichever is less, exceeds $4,000.".

(b) Subsection (b) of section 43 of such Code (per-

32-235 O - 79 - 8

taining to the limitation on the amount of the earned income credit) is amended to read as follows:

"(b) LIMITATION.—The amount of the credit allowable to an individual under subsection (a) for any taxable year is reduced (but not below zero) by an amount equal to 10 percent of so much of the adjusted gross income (or, if greater, the earned income) of the individual for the taxable year as exceeds the amount established with respect to the individual by subsection (c) (4).".

(c) Clause (i) of section 43(c) (2) (A) (defining earned income) is amended by inserting after "compensation" the following: "(other than amounts received as compensation from subsidized work and training as defined in paragraph (3))".

(d) Subsection (c) of section 43 (defining terms related to the earned income credit) is amended by adding the following new paragraphs:

"(3) SUBSIDIZED WORK AND TRAINING.—The term 'subsidized work and training' means employment the compensation for which is funded under title IX of the Comprehensive Employment and Training Act of 1973.

"(4) MAXIMUM INCOME AMOUNT.—

"(A) For purposes of subsection (b), the

amount established with respect to an individual is an amount in accordance with the following table:

"If the number of deductions for personal exemption provided to the individual under section 151 is:	The amount is:
2	$6,500
3	7,800
4	9,100
5	10,400
6	11,700
"7 or more	13,000.

"(B) Effective with respect to taxable years beginning with the taxable year in which section 103 of the better jobs and income comes into effect, each amount specified in the table in subparagraph (A) of this paragraph is increased by an amount derived by multiplying that amount by the same percentage (rounded to the nearest one-tenth of 1 percent) as the percentage by which the Consumer Price Index for Urban Wage Earners and Clerical Workers for the third calendar quarter preceding the quarter in which occurs the month in which section 2101 of that Act comes into effect exceed that index for the calendar quarter ending March 31, 1978. The Consumer Price Index for a quarter is the arithmetical mean of that index for the 3 months in that quarter.".

(e) Section 3402 of the Code (relating to the with-

holding of income tax on the payment of wages) is amended by adding at the end thereof the following new subsection:

"(f) EMPLOYEES ELIGIBLE FOR THE EARNED INCOME CREDIT.—Notwithstanding any other provision of this section, an employer is required to reduce the amount of tax deducted and withheld under this chapter upon the payment of wages to an employee, if there is in effect with respect to such payment a withholding exemption certificate (in such form and containing such other information as the Secretary may prescribe) furnished to the employer by the employee certifying that—

"(1) the employee will be eligible to receive the credit provided in section 43 for the taxable year;

"(2) the employee does not have a withholding exemption certificate described in this subsection in effect for the taxable year with respect to the payment of wages by another employer; and

"(3) the employee's spouse does not have a withholding exemption certificate described in this subsection in effect for the taxable year with respect to the payment of wages by such spouse's employer.

The amount by which the tax otherwise withheld under this chapter is reduced by reason of this subsection shall be determined from tables prescribed by the Secretary. In the tables so prescribed, the amounts set forth shall be determined in

accordance with the computation of the credit provided in section 434.".

(f) Section 3102 of the Code (relating to the deduction of the employee's share of FICA tax from wages) is amended by adding at the end thereof the following new subsection:

"(d) EMPLOYEES ELIGIBLE FOR THE EARNED INCOME CREDIT.—In the case of an employee who has made a request for reduced withholding under section 3402(r), the amount of tax imposed by section 3101 which is deducted from an employee's wages shall be reduced by the amount, if any, by which the credit provided in section 43 prorated to the payroll period (as set forth in the tables prescribed by the Secretary under section 3402(r)) exceeds the amount of tax that would have been withheld under section 3402 if the employee had not requested reduced withholding under section 3402(r).".

(g) Section 6302 of the Code (relating to the mode or time or collection of taxes) is amended by adding at the end thereof the following new subsection:

"(d) SPECIAL RULE FOR THE PAYMENT OF TAX IMPOSED BY SECTION 3111.—

"(1) In the case of an employee who has made a request for reduced withholding under section 3402(r), the employer shall pay the amount determined under

paragraph (2) directly to such employee. Such payment shall be treated as a payment to the Secretary of the tax imposed by section 3111.

"(2) The amount of the tax imposed by section 3111 to be paid directly to the employee under paragraph (1) shall be the amount, if any, by which the credit provided in section 43 prorated to the payroll period (as set forth in the tables prescribed by the Secretary under section 3402(r)), exceeds the amount by which such employee's withholding has been reduced by reason of sections 3402(r) and 3102(d).".

(h) The amount by which the taxes collected under section 3101 of the Internal Revenue Code of 1954 is reduced by reason of subsection (f) of this section and the amount of the taxes imposed by section 3111 of such Code which are paid directly to employees under subsection (g) of this section shall be transferred monthly from the general fund of the Treasury to the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund, and the Federal Hospital Insurance Trust Fund in the same proportion as would be taxes in that amount collected under sections 3101 and 3111.

(i) Subsection (b) of section 6401 of the Internal Revenue Code (relating to the treatment of excessive credits as overpayment) is amended by adding at the end thereof

the following: 'The amount considered to be an overpayment in the case of the earned income credit under section 43 shall be reduced by the amount, if any, that the taxes withheld under section 3102 (a) were reduced by the application of section 3102 (d), plus the amount of any payment of the taxes imposed by section 3111 made directly to the employee under section 6302 (d).".

REPEALS

SEC. 104. (a) Title XVI and parts A and C of title IV of the Social Security Act are repealed.

(b) The Food Stamp Act of 1964 is repealed.

(c) Section 305 (b) of the Social Security Amendments of 1972 (Public Law 92-603) (making inapplicable to Puerto Rico, Guam, and the Virgin Islands the repeal of titles I, X, and XIV of the Social Security Act and the amendment of title XVI of that Act) is repealed.

(d) Section 212 of Public Law 93-66 is repealed.

(e) Section 9 of the Act of April 19, 1950 (authorizing additional Federal participation in State expenditures for aid to families with dependent children to certain Navajo and Hopi Indians), is repealed.

(f) Notwithstanding the preceding provisions of this section, the Secretary of Health, Education, and Welfare shall make payments as prescribed by the Social Security Act as in effect prior to the effective date of the amendment made by

section 101 for (1) activities carried out prior to such effective date under plans approved under title I, X, XIV, or XVI of such Act (applicable to Puerto Rico, Guam, and the Virgin Islands), under part A of title IV of such Act, or under agreements entered into by a State and the Secretary under title XVI of such Act or section 212 of Public Law 93–66 (as such title and such section were in effect prior to the effective date of this section), and (2) administrative activities carried out after the effective date of this section which the Secretary determines are necessary to bring to a close activities carried out under such plans or such agreements, and each State shall pay to the Secretary any amounts which are determined, in accordance with whatever procedures applied prior to the effective date of this section, to be owed to the Secretary in connection with his administration of State supplementation under such agreement.

CONFORMING AMENDMENTS

SEC. 105. (a) Title IV of the Social Security Act is amended by—

(1) striking out subparagraph (B) of section 422 (a) (1); and

(2) repealing section 422 (c).

(b) Title XI of such Act is amended by—

(1) (A) amending the final sentence in paragraph (1) of section 1101 (a) to read as follows: "Such term

when used in title XXI includes the District of Columbia, the Commonwealths of Puerto Rico and the Northern Mariana Islands, Guam, and the Virgin Islands.", and

(B) repealing paragraph (8) of such section;

(2) deleting subsections (a) and (b) of section 1108;

(3) repealing section 1109;

(4) repealing section 1111;

(5) (A) striking out "title I, VI, X, XIV, XVI, XIX, or XX, or part A of title IV" in the first sentence of section 1115 and inserting in lieu thereof "title XIX or XX",

(B) striking out "section 2, 402, 602, 1002, 1402, 1602, 1902, 2002, 2003, or 2004" in such sentence and inserting in lieu thereof "section 1902, 2002, 2003, or 2004", and

(C) striking out "section 3, 403, 603, 1003, 1403, 1603, 1903, or 2002" in such sentence and inserting in lieu thereof "section 1903 or 2002";

(6) (A) striking out "title I, VI, X, XIV, XVI, XIX, or XX, or part A of title IV" wherever it appears in section 116 and inserting in lieu thereof "title XIX or XX", and

(B) striking out "section 4, 404, 604, 1004, 1404,

1604, 1904, or 2003" in subsection (a) (3) of such section and inserting in lieu thereof section 1904 or 2003";

(7) repealing section 1118; and

(8) repealing section 1119.

(c) Title XIX of such Act is amended by--

(1) striking out "except that the determination of eligibility" and all that follows in clause (5) of section 1902 (a) ad inserting in lieu thereof "except that the determination of eligibility for medical assistance under the plan shall be made by the State or local agency administering the agreement entered into by such State and the Secretary under section 2138;";

(2) striking out "all individuals receiving aid or assistance" and all that follows in clause (A) of section 1902 (a) (10) and inserting in lieu thereof "all individuals who would be eligible to receive aid or assistance under any plan of the State approved under title I, X, XIV, or XVI, or part A of title IV, or with respect to whom supplemental security income benefits would be paid under title XVI (had application been made for such aid or assistance or for such benefits) if such plans and such title had remained in effect as they were for the month immediately prior to the effective date of title XXI;";

(3) striking out "individuals receiving aid or assist-

ance" and all that follows in clause (B) of section 1902 (a) (13) and inserting in lieu thereof "individuals who would be eligible to receive aid or assistance under any plan of the State approved under title I, X, XIV, or XVI, or part A of title IV, or with respect to whom supplemental security income benefits would be paid under title XVI (had application been made for such aid or assistance or for such benefits) if such plans and such title had remained in effect as they were for the month immediately prior to the effective date of title XXI, for the inclusion of at least the care and services listed in clauses (1) through (5) of section 1905 (a), and";

(4) (A) striking out, in subparagraph (A) of section 1902 (a) (14), "individuals receiving aid or assistance under any plan of the State approved under title I, X, XIV, or XVI, or part A of title IV, or with respect to whom supplemental security income benefits are being paid under title XVI, or who meet the income and resource requirements of the appropriate State plan, or the supplemental security income program under title XVI, as the case may be, and individuals with respect to whom there is being paid, or who are eligible, or would be eligible if they were not in a medical institution, to have paid with respect to them a State supplementary payment" and inserting in lieu thereof "individuals who

would be eligible to receive aid or assistance under any plan of the State approved under title I, X, XIV, or XVI, or part A of title IV, or with respect to whom supplemental security income benefits would be paid under title XVI (had application been made for such aid or assistance or for such benefits) if such plans and such title had remained in effect as they were for the month prior to the effective date of title XXI, or who would meet the income and resource requirements of such appropriate State plan or of title XVI, and individuals with respect to whom there would be paid, or who would be eligible (including individuals who would be eligible if they were not in a medical institution) to have paid with respect to them a State supplementary payment";

(B) amending so much of subparagraph (B) of section 1902(a)(14) as precedes clause (i) to read as follows:

"(B) with respect to individuals (other than individuals with respect to whom there would be paid, or who would be eligible (including individuals who would be eligible if they were not in a medical institution) to have paid with respect to them, a State supplementary payment (if application had been made for such payment) and are eligible for

medical assistance equal in amount, duration, and scope to the medical assistance made available to individuals described in paragraph (10) (A)) who would not be eligible to receive aid or assistance under any such State plan and with respect to whom supplemental security income benefits would not be paid under title XVI (if application had been made for such benefits) and who would not meet the income and resource requirements of the appropriate State plan, or the supplemental security income program, as the case may be,";

(5) (A) striking out, in the matter that precedes clause (A) of paragraph (17) of section 1902(a), "who are not receiving aid or assistance under any plan of the State approved under title I, XI, XIV, or XVI, or part A of title IV, and with respect to whom supplemental security income benefits are not being paid under title XVI" and inserting in lieu thereof "who would not receive aid or assistance under any plan of the State approved under title I, X, XIV, or XVI, or part A of title IV, and with respect to whom supplemental security income benefits would not be paid under title XVI (even if application had been made for such aid or assistance or for such benefits)",

(B) (i) inserting, immediately following "provide

for" in clause (B) of such paragraph, "disregarding from the income of the applicant or recipient any amount paid with respect to such individual under section 2104 or section 2111, or any amounts received as a cash payment by or for the use of such individual from any agency of a State or its political subdivisions the eligibility for, or amount of which, is dependent upon the financial resources of that individual or his need for financial assistance, and", and

(ii) striking out, in clause (B) of such paragraph "in the case of any applicant or recipient who would, except for income and resources, be eligible for aid or assistance in the form of money payments under any plan of the State approved under title I, X, XIV, or XVI, or part A of title IV, or to have paid with respect to him supplemental security income benefits under title XVI" and inserting in lieu thereof "in the case of any applicant or recipient who would, except for income and resources, be eligible for aid or assistance in the form of money payments under any plan of the State approved under title I, X, XIV, or XVI, or part A of title IV or to have paid with respect to him supplemental security income benefits under title XVI, if such plans and such title had remained as they were in effect for the month prior to the effective date of title XXI", and

(C) striking out all that follows "who is under age 21" down to the first semicolon in clause (D) of such paragraph and inserting in lieu thereof "or is blind or disabled as defined in section 2110";

(6) striking out all that follows "who is under age 21" in paragraph (18) of section 1902(a) and inserting in lieu thereof "is blind or disabled as defined in section 2110 of any medical assistance correctly paid on behalf of such individual under the plan;";

(7) inserting "(as such sections were in effect prior to the effective date of title XXI)" in paragraph (20) (C) of section 1902(a) immediately following "section 1603(a)(4)(A)(i) and (ii);

(8) amending section 1902(b)(2) to read as follows:

"(2) effective July 1, 1967, any age requirement which excludes any individual who has not attained the age of 21 and would (or would except for the provisions of section 406(a)(2)) have been a dependent child under part A of title IV (as such title was in effect prior to the effective date of title XXI);";

(9) repealing section 1902(e);

(10) amending section 1902(e) to read as follows:

"(e) Notwithstanding any other provision of this title, each State plan approved under this title must provide that

each family which would be eligible to receive aid pursuant to the plan of the State approved under part A of title IV (if such plan had remained as in effect for the month prior to the effective date of title XXI) in at least three of the six months immediately preceding the month in which such family would become ineligible for such aid because of increased hours of, or increased income from, employment, shall, while a member of such family is employed, remain eligible for assistance under the plan approved under this title (as though the family were eligible to receive aid under the plan approved under part A of title IV) for four calendar months beginning with the month in which such family would become ineligible for aid under the plan approved under part A of title IV because of income and resources or hours of work limitations contained in such plan.";

(11) (A) striking out "not eligible to participate in the State plan program established under title XVI" in subsection (f) of section 1902;

(B) by striking out of such subsection "(within the meaning of title XVI)" and inserting "as defined in section 2110)" in lieu thereof,

(C) striking out "after deducting any supplemental security income payment and State supplementary payment" in such subsection and inserting in lieu thereof "after deducting any payment made under title XXI";

(D) striking out "there is payable a State supplementary payment" in the second sentence of such subsection and inserting "there would be payable a State supplementary payment" in lieu thereof, and striking out in the same sentence "an eligible individual or eligible spouse, as defined in title XVI, with respect to whom supplemental security income benefits are payable" and inserting in lieu thereof "an aged, blind, or disabled individual (as defined in section 2110) with respect to whom amounts are payable under section 2104, without regard to part B of title XXI";

(12) striking out "are receiving aid or assistance under any plan of the State approved under title I, X, XIV, or XVI or part A of title IV, or with respect to whom supplemental security income benefits are being paid under title XVI, or (B) with respect to whom there is being paid a State supplementary payment" in section 1903(a)(1) and inserting in lieu thereof "would have received aid or assistance under any plan of the State approved under title I, XI, XIV, or XVI, or under part A of title IV, or with respect to whom supplemental security income benefits would have been payable under title XVI (if application had been made for such aid or assistance or for such benefits) if such plans and such title had remained in effect as they were for the month

prior to the effective date of title XXI, or (B) with respect to whom there would have been paid a State supplementary payment (if application had been made therefor)";

(13) (A) striking out "133⅓ percent of the highest amount which would ordinarily be paid" in section 1903 (f) (1) (B) (i) and inserting "133⅓ percent of the highest amount which would ordinarily have been paid" and by inserting "as in effect for the month prior to the effective date of title XXI" immediately before the period at the end thereof,

(B) (i) striking out "highest amount which would ordinarily be paid" in section 1903 (f) (3) and inserting "highest amount which would ordinarily have been paid" in lieu thereof,

(ii) striking out "which would ordinarily be payable" in such section and inserting "which would ordinarily have been payable" in lieu thereof, and

(iii) inserting immediately before the period at the end of such section 1903 (f) (3) "(as such part and as such section were in effect for the month prior to the effective date of title XXI)",

(C) amending subparagraph (A) of section 1903 (f) (4) to read as follows:

"(A) who would receive aid or assistance under any

plan of the State approved under title I, X, XIV, or XVI, or part A of title IV, or with respect to whom supplemental security income benefits would be paid (if application had been made for such aid or assistance or for such benefits) or would have been eligible for such aid or assistance or such benefits if he were not in a medical institution (if such plans and such title had remained in effect as they were prior to the effective date of title XXI), or"; and

(D) repealing subparagraph (B) of section 1903 (f) (4) and redesignating subparagraph (C) as subparagraph (B) and amending it to read as follows:

"(B) with respect to whom there would be paid (or would be payable with respect to him if he were not in a medical institution) a State supplementary payment and is eligible for medical assistance equal in amount, duration, and scope to the medical assistance made available to individuals described in section 1902 (a) (10) (A), but only if the sum of the public assistance income, the unearned income, and the earned income (as defined in section 2106 (a), without regard to section 2107) of such individual in such month does not exceed 300 percent of the maximum payable amount established by section 2105 applicable to such individual,";

(14) (A) striking out all after "at the option of the State," in section 1905 (a) down to clause (i) and in-

serting in lieu thereof "to individuals (other than individuals with respect to whom there would be paid or with respect to whom there would be payable if they were not in a medical institution (if application were made therefor) a State supplementary payment and are eligible for medical assistance made available to individuals described in section 1902(a)(10)(A)) who would not have received aid or assistance under any plan of the State approved under title I, X, XIV, or XVI, or part A of title IV, and with respect to whom supplemental security income benefits would not have been payable (even if application had been made for such aid or assistance or for such benefits) if such plans and such title had remained as they were in effect for the month prior to the effective date of title XXI, who are—",

(B) inserting "(as such sections and such part were in effect prior to the effective date of title XXI)" immediately before the comma at the end of clause (ii) of section 1902(a),

(C) amending clause (iv) of such section to read as follows:

"(iv) blind or disabled as defined in section 2110, or",

(D) repealing clauses (v) and (vii) of section

1905(a) and redesignating clause (vi) as clause (v) and amending it to read as follows:

"(v) persons essential (as described in the second sentence of this subsection) to individuals who would have received aid or assistance under a State plan approved under title I, X, XIV, or XVI (if such plans had remained in effect as they were for the month prior to the effective date of title XXI).",

(E) amending the second sentence of section 1905(a) to read as follows:

"For purposes of clause (v) of the preceding sentence, a person shall be considered essential to another individual if such person is the spouse of and is living with such individual, the needs of such person would be taken into account in determining the amount of aid or assistance furnished to such individual (under a State plan approved under title I, X, XIV, or XVI (if such plans had remained in effect as they were prior to the effective date of title XXI)), and such person would be determined, under such a State plan, to be essential to the well being of such an individual.";

(15) amending subsection (j) of section 1905 to read as follows:

"(j) The term 'State supplementary payment' means any cash payment which would be made by a State on a

regular basis to an individual eligible to receive supplemental security income benefits under title XVI (if such title had remained in effect as it was prior to the effective date of title XXI) or who would, but for his income, be eligible to receive such benefits, as assistance based on need in supplementation of such benefits (as determined by the Secretary).".

(d) Title XX of such Act is amended as follows:

(1) Section 2002(a)(4) of the Social Security Act is amended by (A) redesignating subparagraph (E) as subparagraph (B), and (B) by striking out each subparagraph preceding that subparagraph and inserting in lieu thereof the following:

"(A) who are receiving a payment or who are eligible to receive a payment under title XXI, or".

(2) Section 2002(a)(5) of the Act is amended by striking out subparagraph (A) and inserting in lieu thereof the following—

"(A) who is receiving a payment under title XXI, or".

(3) Section 2002(a)(8) of the Act is amended by striking out "403 or".

(4) Section 2003(d)(1)(B) of the Act is amended by striking out "the plan of the State approved under part A" and all that follows, and inserting in lieu thereof "the plan of the State developed under part B of this title, the earned income supplement and income support program established by title XXI, or the plan of the State approved under title XIX;".

(5) Section 2004(2)(B) of the Act is amended by striking out "for individuals who are recipients of supplemental security income benefits under title XVI" and inserting instead "for individuals who are recipients of payments under title XXI and who are aged, blind, or disabled individuals within the meaning of section 2110(4)(A)".

(6) Section 2004(2)(H) of the Act is amended by striking out "the plan of the State approved under part A of title IV, the plan of the State developed under part B of that title, the supplemental security income program established by title XVI," and inserting instead the following: "the earned income supplement and income support program established by title XXI, the plan of the State developed under part B of title IV,".

FEDERAL EMPLOYMENT OF CERTAIN STATE AND LOCAL EMPLOYEES OR SPECIALLY QUALIFIED PERSONNEL; ACQUISITION OF BUILDINGS AND EQUIPMENT; START-UP FUNDS ADVANCE APPROPRIATIONS

SEC. 106. (a) (1) The Secretary of Health, Education, and Welfare shall, consistent with the law governing appointment to the competitive service, take measures, during the period beginning with the date of enactment of this Act and ending twelve months after the month in which section 101 of this Act becomes effective, to provide priority in the selection of individuals described in paragraph (2) for appointments to positions in the competitive service of the United States for which they apply and are qualified, to perform functions of the Secretary authorized under this Act.

(2) An individual is eligible for assistance under paragraph (1) if, upon the date of enactment of this Act—

(i) he was an employee of a State or any political subdivision of a State who was compensated in whole or in part from sums paid under title XVI or XIX, or part A of title IV, of the Social Security Act or under the Food Stamp Act of 1964; and

(ii) he was the incumbent of a position all or a major part of the duties of which (I) were directly related to determining on behalf of the State or political subdivision the eligibility of persons for assistance pay-

ments or food stamps from sums paid to the State under such provisions of the Social Security Act or Food Stamp Act of 1964, or directly related to the making of such assistance payments (other than medical assistance payments) or providing food stamps or (II) were in support of such determinations or the making of such assistance payments (other than medical assistance payments) or providing food stamps.

(b) (1) EMPLOYMENT OF SPECIALLY QUALIFIED PERSONNEL.—The Secretary is authorized, until the close of the twelfth month following the month in which section 101 becomes effective, to establish and fix the compensation for not more than fifty positions, each such position being established to effectuate those activities of the Secretary in the administration of this Act that require the services of specially qualified professional or administrative personnel. The rates of compensation of positions established under this paragraph shall not exceed the grade of GS–18 of the General Schedule (5 U.S.C. 5332), or, in the case of five such positions, the rate specified, at the time the service in the position is performed, in the case of one such position for level III, two such positions for level IV, and three such positions for level V of the Executive Schedule (5 U.S.C. 5313). Positions created under this paragraph (other than a position under clause (B)) are in the competive service of the United

States, but appointments to such positions within twelve months after section 101 of this Act becomes effective shall be made without competitive examination, upon the Secretary's determination that the appointee's qualifications are consistent with the basis, set forth in section 5104 of title 5, United States Code, for grading comparable positions.

(2) DIRECT HIRING AND PAY OF NEW APPOINTEES.—Until the close of the twelfth month following the month in which section 101 becomes effective, if the Secretary finds that it will promote the efficient administration of this Act with respect to procuring the services of individuals in occupations for which the rates of pay in private enterprise are found by the Secretary to be substantially above the pay rates established by section 5332 of title 5, United States Code, or individuals whose services cannot otherwise readily and expeditiously be procured, the Secretary is authorized—

(A) to administer to an applicant for employment, at such times and places as the Secretary may determine, any examination prescribed under section 3305 of title 5, United States Code, and to appoint the applicant to a position in the competitive service of the United States for which the Secretary finds the applicant qualified, notwithstanding that the name of the applicant is not entered on a register or list of eligibles established under

section 3313 of title 5, United States Code, or certified under section 3317 of title 5, United States Code; and

(B) to employ a new appointee at a step rate, within the grade in which he is appointed, that is above the first step of that grade established by the General Schedule.

(c) ACQUISITION OF BUILDINGS AND EQUIPMENT.—The Secretary is authorized, until the close of the twelfth month following the month in which section 101 becomes effective—

(1) To authorize the Administrator of General Services to procure from any State or any of its political subdivisions, on terms and conditions to which the State or political subdivision, the Administrator, and Secretary may agree, and without regard to any other law or regulation governing the procurement of property, for use in the administration of this Act, real or personal property used by the State or political subdivision in the administration of any program or activity assisted under the Social Security Act and Food Stamp Act of 1964: *Provided*, That a State or political subdivision may not be compensated for such real or personal property in an amount that exceeds the amount determined by the Administrator to be the fair market value of that property,

adjusted for the contribution to the cost of the building attributable by the Secretary of Health, Education, and Welfare or the Secretary of Agriculture to amounts received by the State under either such Act as may be applicable.

(2) To enter into any agreement for the lease of real property or the lease or purchase of personal property or the acquisition of services and related facilities for use in the administration of this Act, without regard to sections 3648 and 3709 of the Revised Statutes (31 U.S.C. 529; 41 U.S.C. 5).

(d) STARTUP FUNDS.—There are hereby authorized to be appropriated such sums for fiscal years 1978, 1979, 1980, and 1981, as may be required for taking all actions, including receipt and processing of applications in advance of the effective date of section 101, the conduct of advance tests of planned administrative procedures and related actions, data systems, or other related materials necessary for the Secretary of Health, Education, and Welfare to prepare for and implement that program.

(e) ADVANCE APPROPRIATIONS.—To the end of assuring continuity in planning and otherwise preparing for the implementation of section 101 of this Act, appropriations under subsection (b) are authorized to be included in any appropriation Act—

(1) for fiscal year 1978, appropriations available for obligation for fiscal years 1979, 1980, and 1981,

(2) for fiscal year 1979, appropriations available for obligation for fiscal years 1980 and 1981, and

(3) for fiscal year 1980, appropriations available for obligation for fiscal year 1981.

EFFECTIVE DATES

SEC. 107. (a) (1) The amendment made by section 101 shall become effective on the first day of the month following the thirty-sixth month after enactment of this Act. Each State (including for this purpose the District of Columbia, the Commonwealths of Puerto Rico and the Northern Mariana Islands, Guam, and the Virgin Islands) may notify the Secretary of Health, Education, and Welfare whether it intends to enter into an agreement with him under section 2138 of the Social Security Act (as added by section 101 of this Act) and if, after the expiration of two full calendar months following enactment of this Act, any such State has not advised him of its choice in this regard, such failure shall be considered as notice that such State does not wish to enter into such an agreement.

(2) Notwithstanding paragraph (1), sections 2112 (b), 2128(b) (3), 2138, and 2145 of the Social Security Act, as added by section 101 of this Act, are effective upon enactment.

(b) The amendments made by sections 102, 104, and 105 shall become effective on the first day of the month following the thirty-sixth month after enactment of this Act.

(c) The amendments made by section 103 are effective with respect to taxable years beginning after the close of the calendar year in which section 101 of this Act becomes effective.

(d) The amendments made by section 106 are effective upon enactment.

TITLE II—EMPLOYMENT OPPORTUNITIES PROGRAM

ESTABLISHMENT OF PROGRAM

SEC. 201. The Comprehensive Employment and Training Act of 1973 is amended by adding at the end thereof the following new title:

"TITLE IX—EMPLOYMENT OPPORTUNITIES PROGRAM

"STATEMENT OF PURPOSE

"SEC. 901. It is the purpose of this title to provide employment opportunities programs to assist jobseekers, who might otherwise have to rely solely on income assistance, in finding unsubsidized employment in the private and public sectors, to provide training for those who need it, and to create subsidized jobs and training opportunities which shall be designed for principal earners in household units which

include children, for whom unsubsidized employment cannot be found.

"PART A—ADMINISTRATION OF EMPLOYMENT OPPORTUNITIES PROGRAMS

"AUTHORIZATION OF APPROPRIATIONS

"SEC. 912. Eighty per centum of the amounts appropriated as may be necessary to carry out the purposes of this title for fiscal year 1981 and each succeeding fiscal year; but, with respect to fiscal year 1981, the Secretary of Labor shall make available for part C such amounts, out of such appropriations, as may be necessary, not to exceed an amount sufficient to provide one million four hundred thousand subsidized work and training opportunities on an annual basis.

"ALLOCATION OF FUNDS

"SEC. 913. Eighty per centum of the amounts appropriated to carry out this title shall be allocated by the Secretary of Labor among prime sponsor areas in each State in accordance with the relative numbers of persons in each such prime sponsor area as compared with the total number of persons in all such areas who are estimated by the Secretary to be eligible for assistance under this title. The remainder shall be allocated in such a manner that, of the total appropriated amounts, there shall be made available not to exceed 2.5 per centum for Puerto Rico, not to exceed one-half of 1 per centum in the aggregate for Guam, the Virgin Islands, and

the Northern Marianas, and not to exceed 2 per centum for Native American programs, and the remaining amounts shall be made available on such basis as the Secretary shall deem appropriate. Such amounts as the Secretary determines will not be needed for use in a particular area during any fiscal year for purposes of this title may be reallocated to other areas for obligation during that fiscal year or the succeeding fiscal year for use over a period of not to exceed twelve months.

"FINANCIAL ASSISTANCE TO PRIME SPONSORS

"SEC. 913. (a) The Secretary of Labor shall provide financial assistance under this part to prime sponsors (designated in accordance with subsection (b) of this section) for the purpose of carrying out programs approved by the Secretary of Labor under this title.

"(b) The Secretary of Labor shall designate as the prime sponsor of programs to be carried out under this title in the particular geographical area served by the prime sponsor so designated—

"(1) any prime sponsor qualified under section 102 of this Act;

"(2) any eligible applicant under section 602(c) of this Act; or

"(3) any other entity eligible to be a prime sponsor under section 102 or 110 of this Act, in cases where a

prime sponsor described in paragraph (1) or (2) of this subsection has not been designated or such a designation has been denied or revoked in accordance with procedures of the type set forth in sections 108, 109, and 110 of this Act.

"(c) In the event that a prime sponsor under this title ceases to be as an eligible applicant under title VI, such prime sponsor may continue as a prime sponsor for purposes of this title for the remainder of the grant period, in the discretion of the Secretary.

"(d) Whenever the Secretary determines, after notice and opportunity for a public hearing, that any prime sponsor designated to serve under this title is—

"(1) maintaining a pattern or practice of discrimination in violation of section 703(1) or section 712(a) of this Act or otherwise failing to serve equitably eligible individuals under part B or eligible participants under part C of this title in the area it serves;

"(2) incurring unreasonable administrative costs in the conduct of activities and programs, as determined pursuant to regulation; or

"(3) otherwise materially failing to carry out the purposes and provisions of this title;

the Secretary may revoke the prime sponsor's plan for the , in whole or in part, and to the extent necessary and

appropriate shall not make further payments to such prime sponsor under this title, and shall notify such sponsor to return all or part of the unexpended sums paid under this title during that fiscal year.

"(e) To the extent necessary to assure the delivery of services in the area served by any prime sponsor subject to the provisions of this section, the Secretary is authorized (if no other eligible prime sponsor is designated under this title to serve such area) to carry out directly the delivery of such services, or to make grants to or enter into contracts for such purpose with public or private nonprofit agencies or organizations in the same manner and to the same extent as if the Secretary were the prime sponsor for that area.

"(f) The Secretary shall, prior to making any payments under this title for any fiscal year, enter into an agreement with any prime sponsor receiving payments under this title which contains provisions adequate to assure that the provisions of this section are carried out effectively.

"EMPLOYMENT OPPORTUNITIES PLAN

"SEC. 914. The Secretary of Labor shall approve an employment opportunities plan submitted by a prime sponsor designated under section 913 only if the Secretary determines that it sets forth satisfactory provisions for carrying out pro-

grams under this title in the geographical area served by such prime sponsor, including but not limited to—

"(1) a job search assistance program meeting the conditions set forth in part B of this title;

"(2) a subsidized work and training opportunities program meeting the conditions set forth in part C of this title;

"(3) provisions to assure a continuous sequence of services for eligible individuals under parts B and C, including job search, placement in unsubsidized work, and, for eligible participants under part C, placement in subsidized work or training designed to lead to unsubsidized work;

"(4) provisions for relating activities under this title to activities under other titles of this Act and to other relevant public and private programs and activities, including but not limited to community and economic development, social services, vocational education and vocational rehabilitation;

"(5) provisions for a hearing or hearings to afford an opportunity for public comment;

"(6) such other conditions and assurances as the Secretary of Labor may require pursuant to regulations.

"REVIEW BY GOVERNOR AND STATE MANPOWER SERVICES COUNCIL

"SEC. 915. (a) Each plan submitted by a prime sponsor described in section 913(b)(1) of this Act shall, prior to its submission to the Secretary of Labor, be transmitted to the Governor of the State and to the State Manpower Services Council (established under section 107 of this Act) for their review and recommendations.

"(b) The State Manpower Services Council shall afford interested parties an opportunity to submit views at a hearing or hearings on the proposed plans of all prime sponsors within the State.

"(c) After their review, the Governor and the State Manpower Services Council shall each submit any recommendations they deem appropriate for modification of any prime sponsor's plan under this title, first, to the prime sponsor, and, after the prime sponsor has had an opportunity to accept or reject such recommendations, to the Secretary of Labor.

"STATEWIDE PLANNING

"SEC. 916. The Secretary of Labor shall provide financial assistance to the Governors of the States, for use in accordance with plans approved by the Secretary, for such purposes as—

"(1) continuous review, monitoring, and evalua-

tions of programs and services assisted under this title, including arrangements for providing job search assistance and subsidized work and training opportunities under this title in prime sponsor areas in the State;

"(2) providing technical assistance and consultative services to prime sponsors throughout the State during the development by prime sponsors of plans to be submitted under this title to the Secretary of Labor;

"(3) developing multiyear numerical projections of job opportunities anticipated in labor market areas throughout the State, and turnover rates in employment in various sectors of the economy in such labor market areas;

"(4) developing plans for coordinating with prime sponsor's plans under this title such related statewide activities as community and economic development, social services, vocational education, and vocational rehabilitation programs, as are or may be designed to enhance the opportunities for eligible individuals and eligible participants under this title to move into regular unsubsidized employment in the economy; and

"(5) development of on-the-job training arrangements with private employers in the State who have established places of business in more than one prime sponsor area.

"PENALTIES FOR FRAUD

"SEC. 917. Any person who—

"(1) knowingly and willfully makes or causes to be made any false statement or representation of a material fact in any application for assistance or participation under this title;

"(2) at any time knowingly and willfully makes or causes to be made any false statement or representation of a material fact for use in determining rights to any such assistance or participation;

"(3) having knowledge of the occurrence of any event affecting (A) the initial or continued right to any payment, or (B) the initial or continued right to any payment of any other person in whose behalf such person has applied for or is receiving such payment, conceals or fails to disclose such event with an intent fraudulently to secure such payment either in a greater amount or quantity than is due or when no such payment is authorized; or

"(4) having made application to receive any such payment for the use and benefit of another and having received it, knowingly and willfully converts such payment or any part thereof to a use other than for the use and benefit of such other person;

shall be guilty of a misdemeanor and upon conviction thereof

shall be fined not more than $5,000 or imprisoned for not more than one year, or both.

"DEFINITION

"SEC. 918. As used in this title—

"(1) 'child' and 'children' mean only an individual or individuals under the age of eighteen years who are not parents of another child living in the same place of residence;

"(2) 'adult' means an individual other than a child;

"(3) 'State' includes each of the fifty States, the District of Columbia, Puerto Rico, the Northern Marianas, Guam, and the Virgin Islands;

"(4) 'household unit' has the same meaning as the definition set forth in section 2101(b) of the Social Security Act;

"(5) the term 'incapacity' means (as defined in regulations which the Secretary of Labor shall prescribe, with the concurrence of the Secretary of Health, Education, and Welfare) a medically determined inability to perform work on a regular basis, which is expected to last for not more than twelve months;

"(6) 'Federal minimum wage' means the minimum wage under section 6(a)(1) of the Fair Labor Standards Act of 1938, except that with respect to Puerto Rico and the Virgin Islands, the Secretary of Labor shall by

regulation prescribe the meaning of such term for purposes of this title;

"(7) 'State or local minimum wage' means the State or local minimum wage for the most nearly comparable private employment.

"PART B—JOB SEARCH ASSISTANCE

"ELIGIBLE INDIVIDUALS

"SEC. 931. In accordance with regulations which the Secretary of Labor shall prescribe, an eligible individual for assistance under this part shall be—

"(1) any adult individual who is a member of a household unit which includes a child; or

"(2) any adult individual who is a member of a household unit which does not include a child and who is a member of a household unit determined by the Secretary of Health, Education, and Welfare to be eligible for a payment under section 2104 of the Social Security Act.

"JOB SEARCH ASSISTANCE PROGRAM

"SEC. 932. (a) Job search assistance programs under this part shall consist of appropriate services and activities in accordance with regulations which the Secretary of Labor shall prescribe, which shall include but not be limited to—

"(1) the administration of an intake process through the State employment security agency or other

comparable arrangements, including provisions for receiving applications of eligible individuals seeking assistance under this part (including those referred to the Secretary of Labor under section 2103 of the Social Security Act), determining whether such individuals are eligible individuals in accordance with section 931 or eligible participants in accordance with section 951 of this Act, verifying the statements and information submitted in connection with such applications, and taking appropriate actions with respect to such applications;

"(2) use of a computerized job matching program, where available, pursuant to an agreement with the State employment security agency;

"(3) a program of job search assistance services, including counseling and testing as needed;

"(4) referral to job opportunities in the private or public sectors, which are not subsidized under this title, of eligible individuals under part B of this title during an initial eight-week job search period, and, thereafter, referral to such job opportunities of eligible individuals under part B who are members of household units receiving cash assistance under title XXI of the Social Security Act and have not found unsubsidized private or public employment;

"(5) referral of eligible participants (as defined in

section 951 of this Act) to subsidized work or training opportunities under part C of this title, after the fifth week from the time such eligible participant applies for job search assistance under this part, if such eligible participant has not been determined to have refused without good cause an unsubsidized bona fide job offer during such job search period;

"(6) job development and related services, to be carried out through arrangements with the State employment security agency, or comparable arrangements with other public or private nonprofit agencies or organizations, including community-based organizations;

"(7) followup services to provide referrals and other information, with respect to the availability of nonsubsidized job opportunities, to eligible participants under part C of this title who have been placed in subsidized work or training positions under this title;

"(8) a renewed eight-week period of job search activity for any eligible participant after a total of fifty-two weeks has passed since the eligible participant first entered a subsidized work or training position under this title;

"(9) provisions for the establishment, by the prime sponsor, of annual goals for placement of eligible individuals under this part in unsubsidized work.

"(b) An individual shall be deemed to have applied for assistance under this title from the time such person enters an appropriate intake office and registers for such assistance.

"WORK REQUIREMENT

"SEC. 933. In accordance with standards and procedures which the Secretary of Labor shall prescribe by regulation, an eligible individual or participant shall not be found to have refused a bona fide job offer for good cause if—

"(1) the rate of pay for the job offered to such person is less than an amount equal to the higher of the Federal minimum wage or State or local minimum wage (as defined in section 918 of this Act) plus, in the case of eligible participants (as defined in section 951 of this Act), any wage supplement (as determined in accordance with section 953 of this Act) which is payable, in the State where such employment is offered, for a subsidized work or training opportunity under this title;

"(2) the conditions of work or training are unreasonable for such individual in light of such factors as the hours of work, health or safety conditions, or geographical location;

"(3) the job offered to such person (A) in the case of a single parent of any child between the ages of seven and thirteen, inclusive, involves hours of work which would make it impractical for such person to be at home

during hours when such child is out of school and at home, or (B) in the case of any other person, provides weekly earnings which are not at least equal to the higher of the Federal minimum wage or State or local minimum wage (as defined in section 918) multiplied by forty hours; or

"(4) the job offered is available due directly to a strike, lockout, or other labor dispute.

"DETERMINATIONS BY THE SECRETARY OF LABOR

"SEC. 934. (a) The Secretary of Labor shall, in accordance with regulations, provide for—

"(1) determinations of claims of incapacity with respect to individuals referred to the Secretary of Labor under section 2103 of the Social Security Act, with review from time to time of the continuance of any such incapacity;

"(2) determinations as to whether a bona fide job offer has been refused without good cause by an eligible individual under part B or an eligible participant under part C;

"(3) an administrative review process, consistent with the types of procedures set forth in section 2136 of the Social Security Act, affording opportunities for hearings and appeals with respect to determinations affecting the applications for assistance under this title of

eligible individuals under part B or eligible participants under part C, determinations of incapacity, and whether any such eligible individual or eligible participant has refused a bona fide job offer without good cause.

"(b) The Secretary of Labor shall provide for timely notification to the Secretary of Health, Education, and Welfare whenever a determination has been made—

"(1) of incapacity (including its expected duration), with respect to any individual referred to the Secretary of Labor by the Secretary of Health, Education, and Welfare under section 2103 of the Social Security Act;

"(2) that a bona fide job offer has been refused without good cause by an eligible individual under part B or by an eligible participant under part C who has been referred to the Secretary of Labor by the Secretary of Health, Education, and Welfare under section 2103 of the Social Security Act;

"(3) that a prime sponsor will be unable to place an eligible participant in a subsidized work or training position prior to the end of the eighth week after such individual applies for job search assistance under this part;

"(4) that an eligible individual referred to the Secretary of Labor by the Secretary of Health, Education,

and Welfare under section 2103 of the Social Security Act has applied for job search assistance under this part; and

"(5) that an eligible participant referred to the Secretary of Labor by the Secretary of Health, Education, and Welfare under section 2103 of the Social Security Act is concluding an eight-week period of job search assistance under this part or has been placed in a subsidized or unsubsidized job.

"(c) The Secretary of Labor may enter into arrangements for the delegation to the Secretary of Health, Education, and Welfare of any functions with respect to determinations of incapacity under subsection (a) of this section.

"JOINT AGREEMENT FOR JOB SEARCH ASSISTANCE RESPONSIBILITIES

"SEC. 935. (a) Any prime sponsor submitting an employment opportunities plan under section 914 of this Act shall—

"(1) transmit, as part of such plan, a copy of any joint agreement between the prime sponsor and the State employment security agency for carrying out specific job search assistance functions under this part; or

"(2) if no such joint agreement has been reached, set forth as a part of such plan, the prime sponsor's

proposed arrangements for carrying out specific job search assistance functions through the State employment security agency or other public or private agencies or organizations.

"(b) As part of its review in accordance with section 915(b) of this Act, the State Manpower Services Council shall, after considering any comments and recommendations submitted by the State employment security agency or other interested parties, make any recommendations such Council deems appropriate for joint arrangements between the prime sponsor and the State employment security agency for carrying out specific job search assistance functions under this part.

"PART C—SUBSIDIZED WORK AND TRAINING

"ELIGIBLE PARTICIPANTS

"SEC. 951. (a) In accordance with regulations which the Secretary of Labor shall prescribe, an eligible participant for assistance under this part shall be an adult individual (1) who is a member of a household unit which includes a child and (2) who, during the six-month period preceding application for assistance under this title, was a principal earner or was the sole earner in any such household unit, or had no earned income and no other adult in such household unit had any earned income during such six-month period; but no indi-

vidual in a particular household unit shall qualify as an eligible participant if another such individual is already a participant.

"(b) For purposes of this title, the term 'principal earner' means that adult in a household unit who had the largest total amount of earned income during the six-month period preceding application for such assistance, except that another adult in the same household unit may, in lieu thereof and pursuant to regulations prescribed by the Secretary of Labor, qualify as the principal earner if that adult worked the largest total amount of hours during such preceding six-month period, or if the adult otherwise determined to be the principal earner during such preceding six-month period is disabled or incapacitated or otherwise not currently available for work.

"FEDERAL FINANCIAL ASSISTANCE

"SEC. 952. (a) The Secretary of Labor shall provide financial assistance for a prime sponsor submitting a plan under section 914 of this title for work and training opportunities under this part if such plan provides that funds under this part will be made available only in accordance with the provisions of this section.

"(b) (1) From its allocation, each prime sponsor may use for purposes of paying the costs of wages and allowances an amount equal to the sum of the Federal contributions to

wages and allowances (as determined under paragraph (2) of this subsection) payable on behalf of all eligible participants in subsidized work or training positions funded by such prime sponsor.

"(2) The Federal contribution to wages and allowances on behalf of any eligible participant shall be equal to the product obtained when the Federal minimum wage (as defined in section 918 of this Act) is multiplied by the number of hours spent by such eligible participant in subsidized work or training activities under this part. The maximum weekly Federal contribution to wages and allowances on behalf of any eligible participant shall be the Federal contributions to wages and allowances for subsidized work or training for forty hours per week.

"(c) From its allocation, each prime sponsor, in addition to the limitation on allowable costs under subsection (b) of this section, may also use an amount, which shall not exceed 30 per centum of the total made available to such prime sponsor under subsection (a) of this section, for the purpose of covering—

"(1) administrative and supervisory costs;

"(2) necessary supplies, equipment, and materials;

"(3) nonwage benefits, including social security employer tax contributions (but not unemployment insurance contributions or contributions to retirement

funds), appropriate worker's compensation, and other benefits in accordance with regulations which the Secretary of Labor shall prescribe;

"(4) payment of amounts (not otherwise provided by the prime sponsor) to cover wages in excess of the Federal minimum wage—

"(A) to the extent that the State or local minimum wage exceeds the Federal minimum wage (as defined in section 918 of this Act); and

"(B) to the extent that wages paid to work leaders exceed wages otherwise paid under this part, except that the number of work leaders so paid shall not exceed 15 per centum of the total number of eligible participants employed in the program and the total rate of pay for such work leaders shall not exceed an amount equal to 125 per centum of the rate of pay otherwise paid under this part to eligible participants employed in that program.

"WAGE SUPPLEMENTATION

"SEC. 953. (a) Each State which enters into an agreement with the Secretary of Health, Education, and Welfare for State supplementation of cash assistance under part B of title XXI of the Social Security Act shall make payments to enable prime sponsors to pay wage supplements in accord-

ance with this section to participants in subsidized work and training positions under this title.

"(b) The wage supplement payable to a participant in subsidized work or training under this section in any State shall be an amount equal to the product obtained when the supplementation percentage (as defined in section 2122(l) of the Social Security Act), applicable to a household unit consisting of one adult and at least one child under the age of seven, multiplied by the Federal minimum wage as defined in section 918, or, if the State so elects, the State minimum wage as defined in section 918 (if higher), except that in no State shall the total wages paid to any such participant (other than to a work leader as provided in section 952(c)(4)(B) of this Act) exceed 110 per centum of the Federal minimum wage as defined in section 918.

"SUBSIDIZED WORK AND TRAINING OPPORTUNITIES

"SEC. 954. (a) The Secretary of Labor shall provide financial assistance to a prime sponsor under this title only if the employment opportunities plan submitted by such prime sponsor under section 914 of this Act contains satisfactory provisions for carrying out subsidized work and training programs, including—

"(1) the provision of full-time opportunities for sub-

sidized work and training designed to lead to unsubsidized work;

"(2) the provision of part-time opportunities for subsidized work and training designed to lead to unsubsidized work, with special provisions for such opportunities during hours which accommodate the needs of single parents, including hours enabling them to be home when their children are out of school;

"(3) appropriate provisions for subsidized training opportunities, including classroom instruction, skills training, on-the-job training, and appropriate work experience, in accordance with regulations which the Secretary shall prescribe;

"(4) assurances that on-the-job training arrangements will not be inconsistent with paragraph (5) of section 101 of this Act;

"(5) assurances that programs providing subsidized work and training opportunities under this part, including projects carried out by community-based organizations and other public or private agencies and organizations, will be carried out under the supervision of the prime sponsor;

"(6) assurances that rates of pay for jobs supported under this part will be not less than the higher of the Federal minimum wage or State or local minimum

wage (as defined in section 918 of this Act), and that the total wages and allowances for such jobholder for hours spent participating in such work and supervised training opportunities shall not exceed such applicable minimum wage (except as otherwise provided by this part) multiplied by the hours spent in work and supervised training per week (which may not include hours spent in job search);

"(7) assurances that provisions will be made for sick leave with pay, in accordance with regulations which the Secretary shall prescribe;

"(8) provisions for the establishment, by the prime sponsor, of goals for placement of participants under this part in unsubsidized work;

"(9) appropriate provisions for flexible working arrangements, including part-time work and flexible working hours;

"(10) appropriate provisions designed so that, in the case of any eligible participant who is away from a job due to incapacity or a short-term unsubsidized work or training opportunity, the same subsidized work or training position under this part which was vacated by such individual (or a similar position) shall, to the maximum extent feasible, remain open for the eligible participant's return to such position;

"(11) provisions for terminating an eligible participant fifty-two weeks after such participant began participating in subsidized work or training under this part (without excluding therefrom any time such participant spent away from a job, as described in paragraph (10) of this subsection), with provisions for continued payment of wages or allowances for the first two weeks of a renewed period of job search activity which such eligible participant agrees to undertake for a period of not less than five nor more than eight weeks; and

"(12) appropriate provisions developed by the prime sponsor, with respect to eligible participants who have not found unsubsidized jobs after five weeks of renewed job search activity, for placing such eligible participants in other subsidized work or training positions under this part which shall be designed to lead to unsubsidized work.

"(b) Where a labor organization represents employees who are engaged in similar work in the same geographical area to subsidized work under this title proposed to be performed under the program for which an employment opportunities plan is being developed for submission under section 914 of this title, such organization shall be notified and shall be afforded a reasonable period of time prior to the submis-

sion of any such plan in which to make comments to the prime sponsor and to the Secretary.

"SPECIAL CONDITIONS

"SEC. 955. (a) The Secretary of Labor shall provide financial assistance under this part only if the Secretary determines, in accordance with regulations, that the activities to be assisted meet the requirements of this section.

"(b) Each prime sponsor under this title shall provide assurances, satisfactory to the Secretary, that the activities assisted under this part—

"(1) will result in an increase in employment opportunities over those opportunities which would otherwise be available;

"(2) will not result in the displacement of currently employed workers (including partial displacement such as reduction in the hours of nonovertime work or wages or employment benefits);

"(3) will not impair existing contracts for services or result in the substitution of funds under this title for other funds in connection with work that would otherwise be performed;

"(4) will not hire any person when any other person is on layoff by the employer from the same or any

substaintially equivalent job in the same geographical area; and

"(5) will not be used to employ any person to fill a job opening created by the act of an employer in laying off or terminating employment of any regular employee or otherwise reducing the regular work force not supported under this part, in anticipation of filling the vacancy so created by hiring an eligible participant to be supported under this part.

"(c) With respect to work supported under this part, jobs in each promotional line shall in no way infringe upon the promotional opportunities which would otherwise be available to persons currently employed in public services not subsidized under this Act and no job will be filled in other than an entry level position in each promotional line until applicable personnel procedures and collective bargaining agreements have been complied with.

"(d) The provisions of section 605(b) of this Act shall apply to this part.

"(e) Activities funded under this part shall meet such other conditions as the Secretary may deem appropriate to carry out the purposes of this Act.".

SPECIAL PROVISION

SEC. 202. State unemployment compensation statutes shall not be considered to be out of conformity with the

unemployment compensation provisions of the Social Security Act and the Federal Unemployment Tax Act if subsidized work and training opportunities under title IX of the Comprehensive Employment and Training Act of 1973 are not covered by such State statutes.

The CHAIRMAN. We are privileged to have as our witness today the distinguished Secretary of Labor, Ray Marshall. Tomorrow, we shall hear from his counterpart in the development of this legislation, Secretary Califano.

We have looked forward to this hearing and this beginning with great expectations, Mr. Secretary.

I would like to turn to my colleagues.

Senator NELSON. I will submit my statement for the record.

[Opening statement of Senator Nelson follows:]

OPENING STATEMENT OF SENATOR GAYLORD NELSON

Senator NELSON. This morning, the Commmittee on Human Resources begins its legislative hearings on welfare reform legislation. The Committee is pleased to have Secretary of Labor Ray Marshall as our first witness. Joining him are Jodie Allen, Special Assistant to the Secretary of Labor for Welfare Reform and Arnold Packer, Assistant Secretary for Policy, Evaluation and Research.

To economize on time, my statement will be brief.

Welfare reform has been a major objective of Presidents Johnson, Nixon, Ford and Carter. While a number of improvements have been made over the past decade in the coverage and administration of the various welfare and jobs programs, and progress has been made in the development of issues pertaining to welfare reform, the goal of comprehensive welfare reform has eluded us. The primary reason for this is that the term "welfare reform" has a variety of meanings to different people.

To some, welfare reform means reducing welfare caseloads and costs. To others it means expanding benefits and program coverage. Still other people believe welfare reform should include a variety of objectives such as reducing the complexity of program administration, easing the fiscal burden on State and local governments, and eliminating the disparity in benefits and coverage between the States. At the same time, virtually everyone wants to encourage work, self-sufficiency and the preservation of families.

The Carter administration's better jobs and income program addresses all of these important areas, and in my opinion is a giant step forward in this Nation's effort to enact a coherent and rational policy which balances the competing and often conflicting policy objectives of "welfare reform." This legislation consolidates the various welfare programs now sponsored by Federal, State and local governments, and provides sufficient employment and training opportunities to give welfare recipients and other structurally unemployed individuals the assistance and training they need to become employed in the regular labor force.

The administration's bill recognizes that there are many individuals in our society who are able and willing to work, who can be transitioned from dependency on the welfare system to productive jobs and a status of self-sufficiency, if the appropriate training, supportive services and incentives are provided. Most poor people do not choose to become dependent on Government subsistence. Indeed, the poor seek for themselves and their families the same opportunities as are available to the rest of society—the opportunity to have a good job, safe and decent housing, adequate food and nutrition, and good health care.

But right now, not enough job opportunities are available. At the same time, many individuals lack the education, training and skills that are necessary to get those jobs that are available. There are also many who have no incentives to seek employment because they are better off receiving their welfare benefits and related services rather than working.

In the past, efforts have been undertaken to evaluate various work programs which are related to the receipt of public assistance. These efforts have led researchers to several important conclusions. First, a substantial number of welfare recipients already work part-time to supplement their incomes. Over 80 percent of welfare recipients that are able to work, do work in temporary jobs. Second, most welfare recipients are capable of performing satisifactory work in meaningful jobs on a continuing basis. Third, most welfare recipients want to work, and if jobs and training are available will do so. Finally, those recipients who received extensive Government supported training and supportive services were the most successful in landing and keeping jobs in the private sector. Simply taking someone from the welfare rolls and putting them in a job doesn't work very well.

These facts lead to the conclusion that the task of changing our present public assistance system to one which emphasizes work is not dependent upon the willingness of welfare recipients to work, but rather upon the provision of jobs, training, and ancillary services so that they can become employed in jobs that pay a livable wage.

It is important to continue to exploring methods which will assist welfare recipients in becoming self-sufficient. In fiscal year 1979, the administration is seeking a $200 million appropriation under title III of the Comprehen-sive Employment and Training Act to establish welfare demonstration pilot projects. The pilot projects are essential to test the efficacy of the Better Jobs and Income Act. Under plans developed by the Department of Labor, demonstration sites will be selected in a number of localities, including large and small States, and in rural and urban areas. Before Congress enacts any major overhaul of the welfare system, it would be good to research further what mixture of employment and training programs and supportive services are needed and what mechanisms should be established to produce the best possible program in various areas of the country.

Answering these questions will be very helpful to the progress which will be made during the remainder of this year and in the next Congress to truly reform our welfare system.

Senator JAVITS. I would like to emphasize the critical importance of what is called welfare reform in the great cities, particularly my City of New York, because we have such a very heavy unemployment rate, over 10 percent, a staggering figure for a city which is so beaten up. I greatly appreciate the Secretary's appearance and prompt consideration of this matter.

The CHAIRMAN. Senator Cranston.

Senator CRANSTON. I have no opening statement.

I would like to welcome the Secretary.

The CHAIRMAN. Obviously, Mr. Secretary, we are anxious to hear from you.

STATEMENT OF HON. RAY MARSHALL, SECRETARY, DEPARTMENT OF LABOR, ACCOMPANIED BY DR. JODIE ALLEN, SPECIAL ASSISTANT TO THE SECRETARY FOR WELFARE REFORM; AND RICHARD JOHNSON, SPECIAL ASSISTANT TO THE ASSISTANT SECRETARY FOR POLICY, EVALUATION AND RESEARCH

Secretary MARSHALL. Thank you, Mr. Chairman, and members of the Committee.

I am pleased to have this opportunity to present our views on the employment opportunities program, the job and training component of the administration's welfare reform proposal, the program for Better Jobs and Income.

Accompanying me today is Jodie Allen, my Special Assistant for Welfare Reform.

The employment opportunities program represents a major commitment by this administration to attempt to insure that all American families will have both the opportunity for self-support through full-time employment and the skills required to hold useful jobs at adequate wages.

The major focus of this program is to encourage and assist employable members of low income families and other low income persons in securing adequate paying jobs in the regular economy. However, in the case of families with children, if no regular economy job paying at least the minimum wage can be found, the Government will undertake to provide one.

We estimate that in 1981, the first year planned for full operation of the program, up to 1.4 million subsidized full and part-time job and training opportunities will be required. This is an ambitious objective but it is one with widespread public support from all ranges of the political spectrum. A recent quarterly New York Times/CBS news poll revealed that 75 to 80 percent of all Americans—irrespective of political persuasion—support the notion that "Government ought to see to it that anybody who wants a job can get one."

The employment opportunities program is an essential component of two major policy initiatives of this administration. The first is the development of a comprehensive employment policy as part of an active strategy to reach the goal of full employment. The second is the commitment to develop a more adequate and equitable income maintenance system which will insure a basic living standard to those of our citizens who cannot provide adequately for themselves or their families.

Before discussing the features of the employment opportunities program in the context of the welfare reform initiative, I would like to briefly describe its importance to our employment strategy. As you know, the administration has affirmed its support for S. 50, the Full Employment and Balanced Growth Act, commonly called the Humphrey-Hawkins bill. That bill establishes a process for coordinating macroeconomic and structural policies to reduce both inflation and unemployment. We are, of course, delighted that the House passed its version of the bill last week. I believe that the bill's goal of a 4-percent unemployment rate in 1983 is appropriately ambitious and that it can be reached.

Conventional monetary and fiscal policy must, of course, be our main reliance in stimulating the overall expansion of the economy

essential to reducing aggregate unemployment. But structural employment and training programs targeted upon workers who are disadvantaged by location, lack of skill or education, or discrimination are essential not only to achieve full employment but to correct the inequities of a society which leaves behind large segments of the population even in times of great overall prosperity.

The administration's employment strategy includes a variety of structural programs including:

A major youth employment and training program;

Continuation of programs for older Americans and other special groups;

Vigorous enforcement of existing civil rights statutes and positive action to improve employment access for minorities;

Programs to reduce the flow of undocumented aliens;

Trade adjustment assistance to retrain workers who have lost their jobs because of import competition;

A major urban policy currently being developed to make sure that even the most distressed areas share in economic recovery.

Our employment strategy also recognizes that economic forecasting is an uncertain business and that we must be better prepared for any future downturns in the business cycle. Accordingly, the reauthorization of the Comprehensive Employment and Training Act, which the administration is seeking this year calls for the permanent establishment of a countercyclical public service employment program which triggers on quickly when labor demand falters and phases down as the economic climate improves.

The employment opportunity component of welfare reform is thus just one of many weapons in our anti-unemployment arsenal. It is not a substitute for macroeconomic policies, for countercyclical policies, nor for programs focused on the particular problems of aging cities or other chronically depressed areas. Nor does it in itself address the special needs of all the structurally unemployed. But it is a major step—the first major step—in attacking the corrosive problem of chronic unemployment and underemployment among family breadwinners.

The employment opportunities program is also an integral part of the administration's income maintenance strategy. There are four salient advantages to an employment approach to income maintenance.

The first is that, by providing incentives and opportunities for work and training, a jobs approach builds human capital and self-sufficiency. In doing so, the long-term need for income maintenance programs is minimized and this, in turn, provides the only hope for real fiscal relief from welfare costs by all levels of Government.

The second advantage is that, in the process, useful goods and services are provided for the whole community and, in particular, for low-income communities.

The third advantage is that the community services thus developed can, in turn, improve the conditions which allow people to go to work, for example, by providing day care or special transportation services, or which attract or retain employers in the community, for example, by improving public safety and community facilities, and these further reinforce the goal of reducing economic dependency.

For example, a fully implemented welfare reform jobs program has the potential for providing local communities the equivalent of

a $1.2 billion child care program; a $1.6 billion program of home services for the elderly and ill; a $200 million program to build facilities for the handicapped; a $2.4 billion program to aid public schools; and a $900 million public safety program.

But perhaps the most important single advantage to an employment approach is that it can assure a far higher total income than is possible through a cash assistance program alone. It is estimated that assuring even a poverty-line income for families with children through a cash assistance program while retaining even modest incentives for work effort, would cost upward of $30 billion. This estimate includes $6.5 billion in increased benefit costs caused by the fact that the covered population will reduce earnings by over $14 billion. Providing the same income through a work opportunity program, in combination with a carefully coordinated supplemental program of cash assistance, costs a fraction of that amount.

There are several reasons for this. First, job related benefits unlike cash assistance benefits, offer an incentive, rather than a disincentive to work—since wages increase rather than decrease as work effort increases. Second, many fewer people can be expected to apply for a job than for a cash benefit of equivalent income value for the simple reason that taking a job requires relinquishing other opportunities for alternative employment, leisure, or work in the home.

However, as the administration's plan recognizes, an employment approach cannot do the job itself. A complementary program of direct income assistance is also required to assure an adequate total level of income and to serve as a backstop if no appropriate job opening is available.

Since wages are necessarily limited by the skill level of workers, while family income requirements are determined by family size, composition, and geographic location, there is no assurance that the program wage will be sufficient, in itself, to meet family needs. Furthermore, if program wages are set high enough to meet the needs of most participating families, the program may begin to exert a disruptive effect on local economies. For these reasons, it is desirable to keep the program wage relatively low and to supplement these earnings by cash assistance benefits adjusted on the basis of family size, composition, and other relevant factors.

The administration's welfare reform program thus represents a careful coordination of employment and cash assistance strategies. Secretary Califano will describe to you tomorrow the features of the cash assistance component which would establish a nationally uniform Federal floor for cash assistance benefits; extend eligibility for federally assisted benefits to previously excluded groups; and simplify and improve administration of cash assistance programs. I will confine my description to the employment and training component.

In designing the program, several principles are stressed. First, productive work effort can best be motivated and sustained by primary reliance on the provision of opportunities and incentive rather than requirements and penalties. Ample reserach evidence and transfer program experience supports the commonsense observation that people work best and hardest when they stand to gain significantly from their efforts. The failures of many of our social programs in the past can be attributed to the fact that they relied on program administrators or beneficiaries to behave in ways which were inconsistent with their self-interest.

A second related principle is that administrative burdens for both program operators and participants should be minimized.

Third, families should be encouraged to minimize reliance on cash assistance—hence persons who work should be substantially better off than similar persons who do not work. This means that both cash assistance and tax programs must not be designed in such a way as to undermine their incentives which make the job program workable.

Fourth, workers should be encouraged to seek unsubsidized employment in preference to subsidized employment—hence persons who work in unsubsidized employment should be better off than those in subsidized employment.

Lastly, every effort should be made to develop subsidized job and training activities which are viewed by participants as productive community services or nonstigmatizing opportunities to self-advancement. If participants view these jobs as punishments rather than opportunities, the work they do will be of little value either to themselves or to their communities.

The major features of the program which would be established as a new title of CETA reflect this general approach.

Under the administration's proposal, eligibility for the employment opportunities component is not restricted to persons receiving cash assistance. One of the goals of the program is to minimize reliance on cash assistance particularly for the many near poor families who experience relatively short-term periods of dependence as the result of sporadic unemployment.

Instead, to insure that program benefits reach those most in need, we have relied on the following simple devices which make the job program self-rationing.

First, eligibility for the subsidized jobs program would be limited to adult members of families with children. Second, only one member of such a family would be provided a subsidized job or training opportunity and that opportunity could only be taken by either the sole parent or, if there are two or more adults, the principal earner. The family may define the principal earner as the parent who either has worked the most hours or had the highest earnings in the last 6 months. If the normal principal earner has become ill or disabled, or is otherwise unavailable for work, the other parent would qualify. If neither has recent work experience, either could apply. This provision would assure that subsidized jobs are restricted to those families whose job opportunities are so limited that no adult member has been able to obtain steady employment in the regular economy at even the relatively low wage level provided by the subsidized job.

Thus, maintaining a relatively low wage is the third, and most important, rationing device. If the wage is low, clearly an individual who can obtain a better paying job will do so. This self-rationing feature also meets another requirement for a workable system.

Wages for these subsidized jobs must not compete with jobs available in the regular economy. The basic wages for these subsidized jobs will be set at the higher of the State or Federal minimum wage. However, there are two very important exceptions to this restriction. In order to maintain the balance between cash assistance and subsidized wages, proportional wage supplements of up to 10 percent of the minimum wage must be paid by those States which also supplement Federal cash assistance for those families not expected to work. It is expected that 39 States will supplement the wage, 37 of them at

the maximum 10 percent. In addition, premiums of up to 25 percent of the minimum wage may be paid to a limited number of work leaders on projects.

This limitation on wages is essential to encourage participants to first seek employment in the regular economy and to discourage people from leaving low-wage regular jobs to take subsidized jobs. Estimates indicate that if the wage is raised, the number of applicants for the job might increase by as much as one and a half times the rate of increase of the wage, and program costs by over twice the rate. This sort of response could lead not only to greatly increased program costs but would ultimately require abandoning the concept of attempting to provide jobs to all eligible persons.

Nonetheless, it is important to note that the combination of wage and team leader supplements, together with legislated improvements in the minimum wage, will produce an average national program wage of $3.72 an hour in 1981, or about $7,700 a year. In 37 States, the average wage will be $3.82 an hour. Put in perspective, a wage of $3.82 in 1981 is comparable to a 1978 wage of $3.21 an hour.

Several other features of the employment opportunities program have been carefully designed to avoid disruptive effects on the regular economy:

A 5-week initial job search period would be required before an individual can be placed in a subsidized job. If, during this 5-week period, the individual is offered a job at prevailing wages, but no lower than the subsidized job wage, he or she would be required to take it. The employment and training system would assist the individual in this intensive 5-week job search. Private sector placement efforts would also continue after an individual has accepted a subsidized job. After holding a subsidized job for 52 weeks, an individual would be required to undertake another 5-week period of intensive job search.

Private job sector job placement efforts would be closely coordinated with a major new administration initiative, "Private Sector Opportunities for the Economically Disadvantaged," planned to begin next year. This program, which would be established as title VII of CETA, will seek to link government employment and training programs more directly to private sector job openings and to insure that subsidized workers make early and successful transition into regular jobs in industry.

The subsidized jobs which are created will be in useful public services which are not normally performed by regular public or private sector workers.

Every effort would be made to emphasize job activities which help participants acquire useful skills and encourage and assist them to seek employment in the regular economy. We expect that training activities would be a regular component of most subsidized job opportunities.

Flexible hours and part-time work opportunities would be provided in order to accommodate the needs of single parents with preschool and school age children.

I would also like to emphasize that while no job guarantee is being made, it is the intent of the program to attempt to provide a sufficient number of job openings to meet the likely demand by eligible work-

ers for the jobs. A great deal of thought and effort has gone into estimating this demand since it is a difficult but important task.

A job program is, by its nature, voluntary—even a rigorously enforced work requirement cannot make people work. Furthermore, it is reasonable to expect that, given the limitations placed on wages and other program incentives, most poor and near poor families will prefer either to retain their current jobs or, in the case of one-parent families with small children, to remain out of the labor force to care for their families. Two independently developed computer models have been used to prepare estimates of the likely need for job and training slots and both models indicate that, given normal economic conditions, a demand will exist for 1.4 million jobs and training slots in 1981. All but 300,000 of these slots will be full-time positions.

Since most low-income families can currently find better paying work for at least part of the year, it is not expected that most participants will remain in the program throughout the year. We estimate that in the first full year of program implementation, about 2.5 million workers each year would be expected to enter these 1.4 million slots. This means that over the course of several years the great majority of the estimated 7 million poor and near poor families with children might be assisted by this program on their way to financial independence. It is estimated that job takers will be split about 50–50 between men and women, with the majority of the women being single-parent heads of families.

Most of the job takers will come from the ranks of the working poor families to whom the administration's plan would extend Federal cash assistance for the first time. However, a substantial number, over 40 percent, will be from families of the type currently eligible for AFDC, including the unemployed father caseload. About 80 percent will have had recent work experience, and it is likely that many participants will be found to be job ready without extensive pre-employment orientation and training.

To meet the demand for 1.4 million jobs will obviously require a flexible and innovative organizational structure. One goal of this program is to attempt to develop greater coordination and enhanced effectiveness of the entire employment and training delivery system.

Program operation will be local. Local labor markets differ, local clientele differ, and a substantial investment has already been made in our existing local employment and training system. As you know, substantial job creation and job development capabilities have already been developed through the Comprehensive Employment and Training Act (CETA) programs which currently serve over 2 million persons a year, and through the State employment services which received over 7 million nonagricultural job listings last year. The CETA system has responded admirably to the tremendous pressure placed upon it during the last several months. Early this month, the level of public service jobs under CETA reached 753,000, thus achieving, on schedule, the goal set for the system nine months ago as part of the administration's economic stimulus package.

Under the local program approach, the local CETA prime sponsors will make arrangements for intake, initial intensive job search and other labor exchange functions with the employment service or comparable arrangements with other agencies. The local sponsors would contract with public agencies, community-based organizations

and other nonprofit groups to provide many of the subsidized jobs and training slots.

The Department of Labor, for its part, would undertake to identify and publicize successful job creation ideas and projects which might be undertaken in other communities and to assist localities in combining funds from other Federal programs to provide additional overhead and supervisory personnel. In consultation with CETA prime sponsors, we are undertaking a continuing effort of this sort to identify job categories which offer the potential for subsidized job placements. Such categories would meet the following criteria:

First: They provide services needed in most local communities.

Second: They require relatively unskilled labor at the entry level.

Third: They are, for the most part, outside the normal range of Government services and pay at or near the minimum wage.

And, fourth: They can be conducted on a relatively large scale in communities across the country.

Thus far, we have identified 16 categories of jobs which alone could supply over 1½ million slots within these criteria. We have prepared a more detailed description of these job types which I will make available to the committee.

Services to the elderly is one of the major categories of subsidized jobs that could be created under this program. We estimate that 200,000 jobs could be created to serve the elderly and the homebound. Similar programs currently exist in many communities under CETA. For example, in Wilson, N.C., AFDC recipients are providing home health care to elderly people who would otherwise have to be institutionalized. In Battle Creek, Mich., housekeeping aides are providing a variety of services for senior citizens which allow them to maintain their own homes and apartments.

Work like this needs to be done in this country. Jobs like these do not require a high degree of skill. All they require is dedication and a desire to work. One has only to walk through any city or travel through any rural area to see clearly that there are thousands of public services that need to be provided, but currently are not being undertaken. Through an imaginative program of job creation, we can combine the twin goals of human development and community development.

Of equal concern, of course, is the immediate effect of the job program on the incomes of working poor families. Subsidized job wages, combined with other family earnings, will by themselves keep 2 million persons in low income families from needing to rely on cash assistance benefits at all. Combined with the two other major elements of the reform package, the comprehensive cash assistance program and the expanded earned income tax credit, the employment opportunities program will insure for the first time that most American families with an employable member will have an income substantially above the poverty line.

In 1981, every family with children with one parent employed in the regular economy will be assured a minimum income 20 percent above the poverty level. If a subsidized job is provided, a minimum income 13 percent above the poverty line is assured.

Important as this achievement will be, it is really only the first step. Economic dependency will not end overnight. Income supplements and subsidized employment are only temporary remedies.

But the low income population is not a static one. Each year perhaps 30 percent of the families in poverty in the United States leave poverty while others, suffering reverses in circumstances, replace them. By providing both opportunities and incentives for increased self-reliance, the employment opportunities program is designed to accelerate the upward flow to financial independence and to assure that lapses into economic dependency are fewer and briefer.

As an integral component of an employment strategy, the employment opportunity component of welfare reform will be a major step forward in assuring that all Americans can share more equitably in the fruits of American economic growth.

Mr. Chairman, I would be glad to try and answer your questions.

The CHAIRMAN. Thank you very much, Mr. Secretary.

It certainly gives us the framework to work with in understanding the program that the administration suggests. I am particularly struck with, toward the end, the various areas of human need that can be met through jobs that are there but not being filled in serving people.

Now, a lot of the things you have mentioned are parts of programs. For example, the homemakers services are now in law and programed to some extent. I get the impression that many of the things you are suggesting in terms of jobs to further social goals are in place but in limited use.

I just wonder how the administrative linkage is going to be established between this effort which, in the job area, comes down to CETA prime sponsors, and the activities and jobs and services that are created through other agencies of government. It looked to me as though we have got an administrative situation of great complexity to bring it all together.

Secretary MARSHALL. Well, we have tried to make the administration of the system very simple because we believe that we need to simplify our programs as much as we can. Therefore, our proposal is that the jobs part of welfare reform be a new title to CETA and that the CETA system be used to deliver the services.

What that means is that the determination will be by local units of Government, for the most part. Determination of what kinds of jobs are to be provided, the system for intake and provision of services would be a part of the system that is already in place. We will, as you know, attempt to learn some more about how to improve the administration of the system through the welfare reform demonstration project proposal that is part of the CETA reauthorization. From the experience we have already had under the CETA stimulus buildup we are convinced that the program will work. But we need to get some additional answers to questions in order to improve the operation of the system before the welfare reform job program goes into full scale operation.

To answer very simply, this would be a part of the CETA system, it would be a new title in the CETA Act. It would be grafted onto that system. We would try to get ready for the full-scale implementation of the program through pilot projects.

The CHAIRMAN. So the first stage would be the demonstration, is that right, for what period of time?

Secretary MARSHALL. In the CETA reauthorization—we have how long on that?

Ms. ALLEN. We hope to begin implementating the pilot projects early next fiscal year. We think we will get feedback on the major things we want to know by the end of that year. The following year we hope to begin to phase in regular program slots on a modest basis.

The CHAIRMAN. In this effort, how many positions are you talking about?

Secretary MARSHALL. 50,000. The appropriation we asked for was $200 million, 50,000 positions.

We are thinking of having demonstration projects in about ten places. We think that it is important to do that in order to be able to answer some very important questions about the program. The main purpose of the demonstration projects would be to attempt to measure the size and characteristics of the pool of applicants in each place.

In particular, we want to verify the accuracy of the computer-based estimates of the job demands. Our computer estimates 1.4 million jobs. This needs considerable refinement. We need to develop and evaluate alternative methods of creating employment and training opportunities suitable to client needs. We need to evaluate the adequacy of overhead allocations, training and placement activities. We need to try out methods of improving private participation and stimulating private sector placements.

In order to achieve our objectives, we have to improve the linkages between public service employment and training programs and the private sector in order to be able to move people through the public service program into the private sector. The incentive system we have tried to set up is designed to do that, to have a situation where people always make more from working in a private sector job than in a subsidized public service employment job.

We need to learn more how to improve those linkages. The project would be designed to accomplish that. We want to study problems associated with particular type of labor markets, seasonality, use of migrant labor, and to develop management information and program monitoring systems that would be ready to be put into operation when the program operations became full scale.

We have asked for funds for the pilot projects as a part of our CETA reauthorization for the 1979 budget.

The CHAIRMAN. Right now CETA and the Employment Service have similar missions. Are you satisfied that there is community linkage and a relationship that is effective and efficient?

Sporadically, I hear from Employment Service people that they are not in harmony of communication, and yet they are both designed to be meeting the same mission, as I understand it.

Secretary MARSHALL. Well, I am not satisfied with the arrangements. We are trying to improve that. We are not satisfied with the relationship between the CETA system and the Employment Service.

I think that there is a good deal of variation. In some places, the relationship is very good. In other places, it is not.

What we have tried to do is to create competition because we believe competition will cause both systems to be better. Where the local CETA prime sponsors want to use the employment system, they are encouraged to do it. In fact, we encourage them to do it

everywhere, but we do not assign the role to the Employment Service. We do not mandate the role.

That is what we have been trying to do, and I think it has caused improvement, both in the Employment Service and the relationship between the Employment Service and CETA.

The CHAIRMAN. Thank you.

Senator Nelson.

Senator NELSON. Mr. Secretary, were State welfare directors included in the development and planning of the program?

Secretary MARSHALL. Yes, sir.

Senator NELSON. In what way?

Secretary MARSHALL. We consulted—HEW, particularly, undertook considerable consultations. We also consulted with the State officials, particularly the CETA system, local prime sponsors, and with the governors and mayors organizations in order to get their input. Both HEW and the Department of Labor conducted extensive consultation.

Senator NELSON. I am just trying to visualize how, when this program goes into place, it is related to State welfare, the whole State welfare infrastructure.

Does it just take over people who otherwise would be receiving——

Secretary MARSHALL. No, it does not. Our definition of "eligibility" is families with children so that you would not have to be on welfare, in other words, to qualify for this program. The reason for that is that we believe it is, first, difficult to administer such a program. But, second, we think it is important to try to prevent people from getting on welfare. We think there are equity problems in limiting eligibility to welfare recipients.

What we have attempted to do is design a program for all low-income families with children, that would make it possible to prevent people from getting on welfare as well as removing people from welfare.

Senator NELSON. If a welfare recipient has been placed in subsidized public employment or private employment and, if continued welfare payment is necessary, does the State continue to pay that?

Ms. ALLEN. It depends upon the arrangement that HEW arrives at as to whether the cost assistance benefit is administered by the State or Federal Government. Whoever was administering it, the job participant would simply report their job wages on a report form to the cash assistance office as they would report income from any other source. They would not be subject to any additional reporting.

The cash assistance side of things would be run by a welfare agency, whether federalized or run by the State.

Senator NELSON. Do I understand from your testimony and the question asked by Senator Williams that you will be attempting to use the current established infrastructure that is already out there, including CETA and including private nonprofit groups and organizations?

Secretary MARSHALL. Yes.

Senator NELSON. We had testimony on Humphrey-Hawkins from people representing the Chrysler Institute in Detroit, which does contract now with CETA and others. From the testimony it would appear to be running a very well-structured, well-designed program that follows through as to training programs or finding a job. And

if the initial placement does not work out getting that employee back and starting over again.

I assume you would continue to utilize these successful, tested programs that are already there without setting up something necessarily competitive.

Secretary MARSHALL. Yes; that is right. We do intend to use institutions like that.

In fact, that is a model program that can be used for our program.

Senator JAVITS. Would you yield to me for 1 minute?

Senator NELSON. Gladly.

Senator JAVITS. In the first place, I am with you on the "Catch-22." This has got to be a lower wage proposition and lumped into programs with minimum wage as it creeps up, rather than with those, including those in the House that propose this should be a going wage thing, which I cannot see. We are buttressed in this regard by Arthur Burns' view.

I would like to have one reconciliation. Perhaps you would wish to do it in writing.

Some years ago, a study was made by Secretary Califano at the White House that a very small percentage of the poor were able to work. I think it was down to as low as 5 percent. Your estimates are much higher. I think this needs to be reconciled. I do not know if you have compared the two, but I think they need to be reconciled. A written answer is fine with me.

Secretary MARSHALL. We have done that, Senator Javits.

Ms. ALLEN. I think that there are major differences in the basis for the two estimates.

First off, the early study included all the aged and disabled. They are not the target of this program. They constituted a large portion of the people classified as not able to work.

Second, that study counted all the children as individuals, as if they lived separately. You could look at any family of four, and say gosh, 75 percent of the members are unable to work. If you look at the adults, you will find a great number of them not only can but do work. The relevant statistic is not how many of the poor, taken as individuals, can work, but how many live in families with an employable member who could potentially support the other family members.

Senator JAVITS. What is the universe you are reaching?

Ms. ALLEN. Eight million poor and near poor families with children.

Senator JAVITS. What is that universe of potential workers?

Ms. ALLEN. We estimate that there are about 7 million potential adult workers in poor or near poor families, with children, not disabled. In the course of a year, about 2.5 million of them would be available for work and not otherwise employed at something better than the jobs being offered by this program.

Senator JAVITS. Your program, as of 1981, would apply to this whole universe?

Secretary MARSHALL. Adults in low-income families with children.

Ms. ALLEN. Many of them have jobs already. They would be receiving cash assistance.

Senator JAVITS. I agree with you about the near poor. I think that is critical.

Thank you so much, Senator Nelson.

Senator NELSON. Surely.

Addressing yourself to the working poor, did I understand from your testimony that Secretary Califano will deal with the specifics of that tomorrow?

Secretary MARSHALL. Yes, sir.

Senator NELSON. Then I will not ask the question now.

You mentioned there would be a division between those on public employment and those on subsidized private employment, and that those on public employment—am I correct—would receive 13 percent more than the poverty level?

Secretary MARSHALL. Yes, sir. They would receive at least that amount even in the States with the lowest welfare benefits.

Senator NELSON. Private employment, 20 percent above the poverty level?

Secretary MARSHALL. Right.

Senator NELSON. Will you use a national poverty level? There is a difference between the poverty level in the rural South some place and New York.

Secretary MARSHALL. That particular estimate did use the national poverty level. In 37 States where we expect supplementation, the income would actually be higher than that.

One of the problems that we have in trying to deal with the geographic differentiations in the cost of living, is that we simply do not have any good measure of those differentiations. Current welfare benefit levels provide a rough proxy of such differences. That is, the 37 States where you expect supplementation of both cash assistance and wages will be higher wage, higher cost of living places.

Senator NELSON. That is what I was trying to get clear.

When we had H.R. 1 in the Finance Committee, one of the great reservations I had about it was they had a national poverty level which then was around $4,000 or something for a family of four. Actually, the costs of living in New York were at least twice what they were in rural Mississippi. And to treat them just the same did not make any sense at all. Does this bill address that question? Does it address it by supplements paid by the State or how?

Secretary MARSHALL. Both by allowing supplementation of both cash assistance and, within limits, wages and by sharing in the cost of the cash supplements.

Senator NELSON. You do use a national standard statistic for poverty?

Secretary MARSHALL. Our assumption is the national standard forms a minimum base. States with higher costs of living can supplement above that, and we assume that real cost of living differentiations are accounted for probably better by those supplementation levels than by any ability we have to measure geographic differences in the cost of living.

Senator NELSON. Then do you not create roughly the same problem that H.R. 1 had in that the proposal is much more beneficial

to low cost areas than it is to high cost areas? And areas like New York, where the cost of living is very high and their budget is in worse shape than most anyway, are disadvantaged by the formula?

Secretary MARSHALL. People in New York would get more income under this system.

Senator NELSON. Who pays the additional?

Secretary MARSHALL. The Federal government shares in the cash assistance supplementation, unlike H.R. 1.

Senator NELSON. What is the share in supplementation?

Ms. ALLEN. There are two features worth noting. One, in order to prevent a windfall to law payment States, all States must pay 10 percent of the Federal minimum cash assistance benefit. That feature was put in to minimize the effect you noticed. The Federal Government pays 75 percent of the cost of the next $500 of supplementation, and 25 percent of amounts above that. The effect of what is essentially a matching formula is to provide fiscal relief to high payment States, and reduce the amount of fiscal relief to low payment States, as compared to the H.R. 1 approach. The plan specifically addresses that concern in that fashion.

In addition, there are a variety of hold-harmless features to assure at least minimum amounts of fiscal relief to all States.

Senator NELSON. The States have to pay 10 percent——

Ms. ALLEN. Of the first $4,200.

Senator NELSON [continuing]. Of the next $500, 75 percent is paid by the Federal Government?

Ms. ALLEN. Right.

Senator NELSON. Can they stop at the poverty level, have no supplementation at all?

Ms. ALLEN. They could, although since the matching formula is more favorable than that which they currently face, we do not anticipate that they would. They will have less incentive to do so than under current law.

Senator NELSON. I have not seen how this would work, but I am raising the question that will shortly be raised by others. A good many States, including my own, get a whole lot less back in any Federal assistance: very frequently we rank 50th, and we are a highly taxed State. I and many others are not likely to be enthusiastic about a program that keeps us No. 50 and gives better benefits to States that do not levy taxes adequately enough to take care of their own problems.

If the formula comes out that way, I would be reluctant to support it. Lots of States are sick and tired of taxing their own people heavily and assuming their own responsibilities, and then paying taxes to support States that do not. I want a good hard look at that, as will many others.

Ms. ALLEN. I am sure that tomorrow Secretary Califano will have numbers of the State by State impact.

Senator NELSON. If you come out with a pattern in which a lot of States, who now receive all kinds of Federal moneys under various formulas, paid for by other States, you are likely to run into a whole lot of trouble. I would be one to help create the trouble.

I am tired of the formulas that kick the daylights out of the States that levy high taxes for services in the State, and then are taxed to provide additional support to States that do not do it.

Secretary MARSHALL. Secretary Califano will provide the details in his testimony on the cash assistance program. It is a good bit less nonfavorable than H.R. 1 was in that regard because of the Federal sharing in supplementation.

Senator NELSON. There is a program that I have been personally interested in for many, many years, since 1965, which involves poverty. That is the Mainstream program, which employs the elderly in a program which, in the 13 years we have had it, has had broad base support wherever it is in place as a work opportunity for people who otherwise would be on welfare without some of this money, or who are at the welfare level.

Does this program encompass any aspect of the working elderly poor——

Secretary MARSHALL. Well, if they had——

Senator NELSON [continuing]. Or only families with dependent children?

Secretary MARSHALL. If they were in such families, they would be eligible. It would not disturb the elderly Americans program.

The CHAIRMAN. I am glad you raised that question. This program only applies to where there are children in the family?

Secretary MARSHALL. That is right.

The CHAIRMAN. This whole other area of the single person, elderly, handicapped, these are all—their job needs are to be met with other programs?

Secretary MARSHALL. This is a separate and distinct title to CETA.

The CHAIRMAN. We will have to come back to this.

Senator Hayakawa, please.

Senator HAYAKAWA. Thank you, Mr. Chairman.

Good morning, Mr. Secretary.

Secretary MARSHALL. Good morning, Senator.

Senator HAYAKAWA. I do want to ask a question or two.

You say on page 8, "It is desirable to keep the program wage relatively low and to supplement these earnings by cash assistance benefits" because you do not want to disrupt local economies.

By low wages in this case, this means less than minimum wage, does it not?

Secretary MARSHALL. It means at least the minimum wage.

Senator HAYAKAWA. Where does the cash assistance come from?

Secretary MARSHALL. From HEW.

Senator HAYAKAWA. That is what Secretary Califano will describe tomorrow?

Secretary MARSHALL. Yes.

One other thing, the earned income tax credit would be the other component of income supplementation for working poor families.

Senator HAYAKAWA. Those getting jobs in the private sector will be better rewarded with cash assistance or cash supplements than those who are in publicly funded training programs?

Secretary MARSHALL. The rewards would be higher because of the earned income tax credits. They will be eligible for the earned in-

come tax credit in addition to the cash supplement. We will also try to have a more intensive job search program to try to find jobs for them in the private sector.

Senator HAYAKAWA. What is the difference between subsidized employment and the employee to whom you give a cash supplement? Does the subsidy go to the employer?

Secretary MARSHALL. No; in all cases the subsidy goes to the employee. The worker in the private sector job gets the earned income tax credit.

Senator HAYAKAWA. That is called unsubsidized employment?

Secretary MARSHALL. The difference is it will not be a public job. It will be a private sector job, or it could be a regular public sector job, but not one of the jobs we create specially for this purpose.

What we mean by a subsidized job is a public service job created as part of this program. The unsubsidized job would be a job in the regular economy.

Senator HAYAKAWA. That exists independently?

Secretary MARSHALL. Yes.

Senator HAYAKAWA. But they are both, in a sense, subsidized?

Secretary MARSHALL. The worker is subsidized in both cases, yes. Incentive is provided to the worker to take a job.

Senator HAYAKAWA. Because he will get a larger——

Secretary MARSHALL. If he does not work, he will not get the earned income tax credit.

Senator HAYAKAWA. This subsidy comes both from the State and Federal Governments?

Secretary MARSHALL. The earned income tax credit comes from the Federal Government through the tax system.

Senator HAYAKAWA. "The subsidized jobs which are created will be"—this is on page 13—"in useful public services which are not normally performed by regular public or private sector workers."

I was curious as to what you mean by that. Cite some examples for me.

Secretary MARSHALL. Let me give you an example of the program we mentioned in Wilson, N.C., that I visited.

What this program did was to take former AFDC recipients, give them 2 weeks training in home health care and place them in the homes of the dependent elderly, elderly people with health problems. That was their main job. The workers were mainly young women who had been on AFDC.

They went into the homes of the elderly poor who had medical problems, health problems of one kind or another. They did not have a lot of training, obviously, in health care. But they could take care of those people, cook, keep house and they had enough health care training to know what to do if there were some serious problem.

What we found in that program is that many of those young people who got into that program acquired interest in the health field. Some are going on to be nurses or medical technicians and studying after work hours in community colleges near there. That was encouraged as part of the program.

That was a job that would not have been done without the program. Those elderly people would have been institutionalized if they had not had that home health care. That was a part of the job, you

might say, of the regular welfare worker, but only a part. The CETA program made it possible for the welfare professionals to concentrate on other more skilled or specialized tasks. In other words, it aided and added to the work of the welfare caseworkers rather than replacing them.

Senator HAYAKAWA. These are the indigent elderly?

Secretary MARSHALL. Yes, sir.

Senator HAYAKAWA. Most of these then can be described as public services not normally—mostly personal services?

Secretary MARSHALL. Mostly. Some of them can be in things like weatherizing the homes of poor people, which we have several programs that are doing that now.

What we have tried to encourage is that the workers be used to accomplish a number of objectives. In the weatherization program we are helping with the energy program as well as improving poor people's incomes.

Senator HAYAKAWA. Are there union problems?

Secretary MARSHALL. They tend to get worked out at the local level.

Senator HAYAKAWA. Thank you very much, Mr. Secretary.

The CHAIRMAN. Mr. Secretary, I certainly appreciate the simplicity of using the minimum wage standard as a means of controlling the size of the subsidized work force. I am concerned about the defect in two respects. People working side by side may be paid significantly different wages; the potential for undermining existing wage structures in State and local governments, nonprofit organizations providing the job opportunities.

I wonder if you could comment on these dilemmas I see?

Secretary MARSHALL. I think this should never happen. People doing the same work should always be paid the same.

What happens, of course, people do work side by side and get paid different wages, but they are not doing the same work. In the case in Wilson, N.C., it would be hard to classify those formerly on AFDC as professional caseworkers. They were doing a part of what might, in the ordinary definition, be classified as that job. But I do not think anybody would contemplate that the CETA workers, the former welfare recipients, those workers should be paid the same amount as the professional caseworkers.

That is the reason, the jobs ought to be selected so they will be jobs that are not ordinarily performed in their entirety by regular workers—by creating new services you do not displace any workers who are in the regular payroll now. And by designing new jobs you are paying a wage that is the wage for that kind of work in that community. It may be lower than the wage received by most regular public service employees, but higher paid employees would not be doing exclusively that kind of work.

The CHAIRMAN. There is a listing of the areas in one of the documents that I have here. There are 16 areas that are described. All of them are currently receiving some attention. People are working in recreation, for example.

In these situations, I do not quite understand how there would be—we will use the word "patroling" to insure against the problems that I first mentioned.

Secretary MARSHALL. One way to do it, you can have a separate job category. You might have, in the case that I mentioned, these people being aides to regular public employees. You could have another situation, which we encourage, where all of the people in the CETA jobs were working for a local nonprofit corporation. In fact, we encourage that because it minimizes substitution.

In the other cases, they could be aides to the regular public employees.

Like playground attendants, you would not expect a low wage playground attendant to have the same pay as the person with the college degree in recreation. In some sense, you could say they are engaged in the same work, like any helper is engaged in the same work as a craftsman. You would not expect the apprentice to be paid the same wage as the craftsman in that occupation.

That is, I think, a relatively simple problem in occupational structuring that would not be difficult to deal with. It would be difficult—you would expect trouble—if you took people who were professionals, trained in these occupations, and put them to work at these wages. I do not think that is likely to happen. I do not think you are likely to get professionals to go to work for these wages.

Let me also emphasize that we tried to build flexibility into the wage structure because it is not exclusively minimum wage jobs. All but 11 States will be allowed to supplement the wages up to 10 percent. In addition 15 percent of the people would be allowed to receive additional 25-percent wage supplements.

We will also provide training in the jobs. That can make up a sizable component of the job.

While I think that it is a matter that we ought to be concerned about, I do not really think it is insurmountable to the implementation of an effective program, just as it has not been under the current CETA program. We already have many places with people working in similar jobs, and in the way we are currently structuring the CETA program, we have less and less displacement and substitution of regular public employees. One of the ways we have found to do that, is to keep the public service employment wage relatively low. If you do not have a ceiling on wages, there is a strong tendency for strong units of Government to use these employees as substitutes for regular public employees.

The CHAIRMAN. That has been a problem in CETA.

Secretary MARSHALL. In the past, it has been.

The CHAIRMAN. Have you been able to, through enforcement, reach and reduce this?

Secretary MARSHALL. Yes.

In the stimulus buildup, we did several things to reduce substitution, like encouraging the project approach, limiting wages, and defining the eligibility standards for people.

The independent study that Richard Nathan made at Brookings indicated that the substitution rate on the stimulus portion of CETA that we put into operation last year was 8 percent. That is relatively low. We believe the provisions that we have in the CETA reauthorization will reduce that even more.

The CHAIRMAN. Two things to focus this approach and compare it with what the House is developing. First, on the equal pay. That is a principle they are working with.

Secretary MARSHALL. I have no trouble with that principle. A good bit depends on what people mean by "prevailing wage." Prevailing wage is not the going wage. It does not mean the average wage. The prevailing wage is simply the wage that is paid for a particular kind of work in a particular area.

We do not see any incompatability with that concept—and equal pay for equal work what we propose here. We think a program that interfered with the principle of equal pay for equal work would be very bad, and we would oppose it.

The CHAIRMAN. You do not use those descriptive phrases at all here in your statement.

Secretary MARSHALL. We did do it when I testified on the House bill. It would be easy for me to elaborate and spell out precisely how that would work.

The CHAIRMAN. I think perhaps we should have a supplement to this statement to show how that is not in conflict with what you have said today.

Secretary MARSHALL. I will do that.

[The information follows:]

MINIMUM WAGES, PREVAILING WAGES, AND PBJI WAGES

It is important to understand the differences and similarities of the minimum wage rate in 1978 and 1981, prevailing wage rates, and the administration's welfare reform wage rates.

The minimum wage rate in 1978 is $2.65 per hour. In 1981 the minimum wage will be $3.35. This is an annual increase of 8.2 percent. In addition it is important to note that the 1978 minimum wage was 15.2 percent higher than the 1977 minimum as a result of the new minimum wage law.

Since prevailing wage is defined as that wage paid for a specific type of employment in a particular area, prevailing wages will vary.

Wages paid under the Administration's welfare reform proposal will also vary. Eleven states will pay $3.35, the 1981 minimum wage. Thirty-seven states are expected to pay 10 percent above the minimum wage. The remaining two states are expected to pay a wage that is somewhere in between. In addition 15 percent of the job slots in all states are reserved for work leaders and they will be paid wages 25 percent higher than other workers.

Thus the average wage paid in this program will be $3.72 an hour. However, in the 37 states that will supplement wages by ten percent, the average wage will be $3.82 an hour. Putting this in perspective, a wage of $3.82 an hour in 1981 is comparable to a 1978 wage of $3.21.

It is the Secretary of Labor's stated intention to create welfare reform jobs for which the prevailing wage is at or near the welfare reform wage (average of $3.72 per hour). The current stimulus buildup contains many types of projects for which the welfare reform wage and the prevailing wage are in the same range.

Further, in many local communities subsidized jobs will be created in new areas of production or service for which no prevailing wage has been established. Existing job types may also be restructured so that some of their component activities can be performed by less skilled workers. In order to better serve the target population, the welfare reform jobs will, in the main, be in relatively labor intensive activities requiring large numbers of labor skilled workers. These features should minimize the instances wherein welfare reform jobs undercut wages in similar unsubsidized employment.

In those cases where a welfare reform job pays less than an existing position in the private sector, enough training can be built into the subsidized slot to justify payment of "apprenticeship" wages. This will occur most frequently in local areas experiencing a shortage of skilled labor in particular occupations.

We fully expect CETA sponsors to consult extensively with the appropriate employee unions before special public jobs are created and to take their views into account. This will help to assure that jobs are not created which displace or adversely affect regular employment.

Finally, no one would be required to take a job in the private sector at a wage lower than that normally paid for that type of work. No one's cash assistance will be reduced if they refuse such a job.

Effect of increasing the proposed welfare reform wage rates. An increase in the wages in the jobs component will trigger a rapid increase in the costs and administrative burden of the program. Our analysis indicates that if the wages were raised, the number of applicants for these jobs would increase at a rate greater than the increase in the wages. For example, a 10 percent increase in wages is predicted to increase the demand for jobs by 14 percent. The total cost of the program would increase by an even greater percentage since the number of jobs required would rise and the cost per job would also go up. A 10 percent increase in wages would increase program costs (in 1978 dollars) by 25 percent or $2.2 billion.

The goal of this program is to provide work opportunities for adults in families with children who cannot find full-time work at an adequate wage. This program is not designed to serve full-time workers in low-wage jobs who might prefer a subsidized job if the wages were raised. If you increase the number of people applying for these jobs, you run the risk of not being able to serve those people most in need of this program including women and minorities.

As previously mentioned, welfare reform jobs will pay prevailing wages. Where the total weekly compensation is below that normally received by workers in a given type of job it will be because, workers will be receiving training as well as work experience. The greatest social stigma is in not being able to find employment of any kind. We believe the President's proposal by assuring that at least one job per family will be available to parents will enable them to become self-supporting, will raise self-esteem and will provide them an opportunity to prepare for higher level jobs.

The welfare reform jobs program will provide new work opportunities for hundreds of thousands of workers who otherwise would be unemployed, working sporadically, or paid below the minimum wage. An average welfare reform wage of $3.72 an hour in 1981 would be higher--when adjusted

32-235 O - 79 - 13

for inflation and the historical rate of wage growth--than the wages currently earned by the principal worker in 2 million families with children. These are the people this program is designed to serve.

The CHAIRMAN. The expectations of support in getting a job is stated differently in your statement than as is stated in the House approach. Do they not state their approach toward the job guarantee principle differently?

Secretary MARSHALL. They have kind of an open-ended funding arrangement, which is different from what we proposed. We have tried to estimate as accurately as possible the number of jobs we think would be required. We also propose that we test that out between now and 1981 to see if our estimate is accurate, and if the 1.4 million would be sufficient. We think it will be. Whether or not it will be depends on a lot of things, the assumption that we make about the overall level of unemployment, for example.

That is the reason we propose in the CETA reauthorization to trigger the regular CETA program. This program could get swamped if we had unemployment of 8 percent, say, by 1981. If we do not take account of those factors, then the estimates we make will not be accurate.

We also believe we can refine the estimate and get a better determination of whether the program will work as we have outlined it and planned it through pilot projects. We have also tried to learn as much as we could from the CETA stimulus program.

As you know, we have a lot of projects that are very similar to those contemplated, a lot of participants in CETA program now are similar to the expected participants in the welfare reform program. We have studied these efforts, had research projects and demonstration projects to try to learn as much as we can already.

We think we will learn more from the welfare reform demonstration project we propose in our 1979 budget, and that by the time we get ready for the full-scale implementation of this project, we will have the answers to almost all questions that remain.

We do not have any doubt about our ability to mount the program. The questions we have relate to how the program ought to be administered and how you implement, for example, the relationship between the public service programs and the private sector. We will get answers to those questions.

How many jobs we need in public service depends heavily on our ability to improve the linkages between public programs and private programs.

The CHAIRMAN. What is the administration's expectation and hope for legislation to get underway with your demonstration? How broad does the legislation have to be?

Secretary MARSHALL. We just need to pass the CETA reauthorization bill.

The CHAIRMAN. That is all? Nothing more is needed?

Secretary MARSHALL. Right.

The CHAIRMAN. That seems to take pressure off this legislation.

Secretary MARSHALL. Well, it would not take pressure off because the assumptions that we make——

The CHAIRMAN. Not ultimately, but for now pressure to pass this legislation is reduced as you are expecting the demonstration to tell you more directed toward the perfection of this program.

Secretary MARSHALL. In order to meet our overall employment targets, the 1983 Humphrey-Hawkins target of 4 percent unemploy-

ment, we need to start now to build up toward that objective. We need not only the 1979 demonstration projects, but we also need to move into 1980 with the first installments of the welfare reform jobs and enlarging the basic CETA program. We have built into our estimates of our employment objectives and welfare reform objectives the assumptions that this legislation would pass in sufficient time to allow us to build up in an orderly fashion to 1.4 million jobs by 1982.

The CHAIRMAN. When?

Secretary MARSHALL. We hope for action on the bill this session, to allow us time to plan for the required build-up.

The CHAIRMAN. Senator Nelson.

Senator NELSON. With respect to public employment, I am trying to get the formula clear in my mind.

The Federal Government will pay to any municipality or unit of government, State or otherwise, that hires one of the eligible employees 90 percent of that salary up to $4,200, is that correct?

Ms. ALLEN. That is the cash assistance side of things. The Federal Government will pay 90 percent of the first $4,200 of cash assistance.

Senator NELSON. All right.

What is the job side picture?

Secretary MARSHALL. The Federal Government will pay one hundred percent of the base wage which is the Federal minimum wage. We do that now under CETA so there is no difference.

Senator NELSON. All the public employment jobs will be 100-percent federally-funded at the minimum wage?

Secretary MARSHALL. Yes; cash assistance supplementation is what the Federal Government will share in.

Ms. ALLEN. There are the cash and wage sides of things. On the wage side, we have a basic Federal wage, fully federally-funded, which is the Federal minimum wage. It would be about $7,000 a year in 1981.

If a State is supplementing the cash assistance benefit, a State must also supplement the wage in order to maintain some balance between the two. But States are not allowed to supplement the wage by more than 10 percent even if they are supplementing the cash assistance by more than that.

Secretary MARSHALL. We do not want to create a disincentive to work. If you are going to give supplementation to those just getting cash assistance, you have to supplement the wages by that amount in order to keep that principle of always being able to make more from working than not working.

Senator NELSON. Let me take an example of someone—a family with dependents eligible under the program, receiving welfare payments now, no employment. So the State is paying the welfare—with Federal moneys partially.

Now, the eligible member of the family gets a job with the State.

Ms. ALLEN. A subsidized CETA job?

Senator NELSON. A public employment job. All right.

What is the picture from then on? The job has to pay at least the minimum wage. You start with that.

Ms. ALLEN. Let's take the case of a State that is not supplementing cash assistance or wages, one of the 11 Southern States. Suppose that the family had been receiving just one basic $4,200 cash assistance supplement, the minimum under welfare reform a family of four would get. Of that $4,200, the State would have been paying 10 percent and the Federal Government 90 percent. Now, they go to work in the subsidized job.

In this case, it would be only a minimum wage job. They go to work, and they receive the minimum wage which, in 1978 dollars, would be about $5,500 a year. The Federal Government would be paying all of that. However, the family would still be eligible for some cash assistance supplement, because that benefit would be reduced by only 50 percent of the earnings that the person had. You would thus reduce the cash assistance benefit by half of the $5,500 of earnings, and they would end up with a cash assistance benefit of $1,450. That would be paid to them by the welfare agency in addition to the wages they were earning in the subsidized job, just as if they went to work in the regular economy.

Again the Federal Government is paying 90 percent and the State is paying 10 percent of the cash assistance benefit while the Feds would be paying 100 percent of the wage.

In a supplementing stage, take a State that has a current welfare benefit of about $6,000. The family in this case would have been getting $6,000 when they were not working. There would have been a matching formula for that, with the Federal Government paying 90 percent of the first $4,200, 75 percent of the next 500 and 25 percent of the remainder. The State would have been paying the rest of it.

If a family member takes a subsidized job they would get the basic Federal minimum wage plus the State would supplement that wage by 10 percent. The total wage would be $6,000. In this case their cash assistance supplement would thus be reduced by 70 percent of their wages, just as if they had been earning that amount in the regular economy.

Thus, they would still be getting some residual cash assistance supplement, mostly paid for by the Federal Government. Their wage would be, again, 90 percent paid by the Federal Government, with one 10-percent supplement being paid by the State.

There are also hold-harmless formulas. A State is held harmless for extra expenses incurred for having to pay wage supplements.

Senator NELSON. What is the inducement for the State to participate?

Ms. ALLEN. In the cash or in the job, or both?

Senator NELSON. State participation, what is the inducement—how strong is the inducement?

Ms. ALLEN. On the cash assistance side, almost every State will have a stronger inducement than they do now to participate. That may not be the case in low payment southern States.

Senator NELSON. Will every State that participates end up with a reduced welfare financial responsibility?

Ms. ALLEN. Yes, Senator. At the very minimum, the State is guaranteed a savings of 10 percent as against current expenditures in a

whole set of categories of items. I would rather not try to list what they are because it is a rather complex list. I would rather have HEW answer that question. But, yes, they are guaranteed at least a minimum amount of fiscal relief.

Secretary MARSHALL. Incentive to participate in the jobs program is added to that. That is, if you move people from welfare into jobs, you reduce the welfare burden substantially by that process. It is all paid for by the Federal Government, except the supplement. If you move into a public service job, it is paid for, at least at the minimum wage, by the Federal Government. You get, in addition, whatever services these people perform. You get more fiscal relief through a jobs program than any other way.

Senator NELSON. I think it would be helpful to have some actual cases, and I would like to see them from actual States, New York, Mississippi, Wisconsin, what have you. I would like to see a sampling of States that have varying programs in terms of amounts paid for welfare, and have some case histories to run through in order to see what actually happens in each case and what its impact is on each State in terms of its own expenditures.

If we have the staff work up some questions on those, would you submit to us a sample case history for each of those?

Secretary MARSHALL. Yes, sir, we can do that.

[The information follows:]

Program For Better Jobs and Income:
Illustrative Benefit Levels

Single Parent Families With Children Under 7

The national basic benefit paid to a four person family with no other income will be $4200 in 1978. The basic benefit will be reduced by fifty cents for each dollar of earned income in states which do not supplement, by fifty-two cents for each dollar of earned income in states that supplement up to $4700, and by no more than seventy cents for each dollar of earned income in states that supplement above $4700. Child care deductions, as incurred, will be allowed up to a maximum of $150 per month for each of two children. The Earned Income Tax Credit (EITC) will be modified to yield to families with children at 10 percent credit on earnings up to $4000 and a 5 percent credit on earnings between $4000 and the Federal income tax-entry point.*

Table 1 illustrates the benefits to be paid at various earnings levels and supplementation levels. Benefit amounts can be computed according to the folowing formulas:

Benefit = Cash Assistance + EITC

Cash Assistance = Guarantee - (Benefit Reduction Rate) (Countable Earnings)

Guarantee = National Basic Benefit+State Supplement

National Basic Benefit = $4200

State Supplement	= 0	with no supplementation
	= $500	with modest supplementation
	= $2240	with supplementation of higher tier to the poverty level
Benefit Reduction Rate	= .50	with no suplementation
	= .52	with modest supplementation
	= .70	with supplementation of higher tier to the poverty level

* The EITC will not apply to earnings from the special public job.

Countable Earnings = Earnings - Child Care Deduction

EITC = .10 x (earnings up to $4000)

+ .05 x (earnings above $4000)

For example, the benefit paid to a family with a public job (paying $5512) and child care expenses ($3600 per year) and in a state providing a modest supplement ($500) will be:

Benefit = (4200+500)-.52 (5512 - 3600) = $3705.76.

Table 2 shows the income that would be received by employed, single parent families of different sizes with a child under 7. Assuming that each family claims the maximum child care deduction, most family sizes would be placed well above the poverty level through full time work in either a regular job or a subsidized public job. A mother with 6 children in a subsidized public job would be just above the poverty level, but a minimum wage regular job would place the family about $600 over the poverty line.

TABLE 1

ILLUSTRATIVE ANNUAL BENEFIT LEVELS:
Single Parent four Person family,
Child Under 7
(1978 dollars)

Employment Status and Earnings	No State Supplements				Modest State Supplementation			
	No childcare deduction		Maximum childcare deduction		No childcare deduction		Maximum childcare deduction a	
	Benefits b	Total Income	Benefits b	Total Income	Benefits b	Total Income	Benefits b	Total Income
No Job								
$0	4200	4200	-	-	4700	4700	-	-
Public Job								
$5512	1444	6956	3244	8756	1910	7422	3706	9218
Private Job								
$5512	1920	7432	3720	9232	2386	7898	4182	9694
($8700)	(476)		(476)		(476)		(476)	
Private Job								
$8000	800	8800	2600	10600	1216	9216	3012	11012
($11700)	(600)		(600)		(600)		(600)	
			State Supplementation to the Poverty Level					
No Job								
$0	6440	6440	-	-				
Public Job								
$6063	2196	8259	4056	10919				
Private Job								
$6063	2699	8762	5359	11422				
($8700)	(503)		(503)					
Private Job								
$8000	1440	9440	3960	11960				
($11700)	(600)		(600)					

a The maximum childcare deduction is $160 per month per child up to a maximum of two children.
b Benefits are composed of cash assistance payments and the EITC for private sector employment.
c States are required to supplement public job wages in the same proportion, up to 10 percent, that they supplement the basic cash grant for the higher tier above $4700.

Table 2

Illustrative Annual Benefit Levels Relative to Poverty Line: Single Parent, Child under 7, Maximum child care Deduction, No State Supplements (1978 dollars)

Family Size	Subsidized Public Job Total Income	Regular Job Total Income	Poverty Line
2 persons	6,656	7,132	4,085
3 persons	8,156	8,632	5,005
4 persons	8,756	9,232	6,440
5 persons	9,356	9,832	7,567
6 persons	9,956	10,432	8,513
7 persons	10,556	11,032	10,451

Single Parent Families With Children Between 7-13

The benefit structure for these families is the same as for families with younger children except that if a bonafide offer of a job during school hours is refused, the basic benefit will be reduced to $2300.

Two Parent Families With Children and Single Parent Families Whose Youngest Child is 14 or Older

The basic benefit for such families will be $2300 annually for a four person unit. Benefits will be reduced after the first $3800 of earnings by fifty cents for each dollar. In states that supplement, the reduction rate will be no more than fifty-two percent, and the earnings disregard will vary. There will be no allowance for child care expenses. The EITC will again apply to earnings from regular work and not to earnings from the special public job.

Table 3 illustrates the benefits to be paid at various earnings levels and supplementation levels. Benefit amounts can be computed according to the following formulas:

Benefit = Cash Assistance+EITC

Cash Assistance = Guarantee - (Benefit Reduction Rate)x (Countable Earnings)

Guarantee = National Basic Benefit+State Supplement

National Basic Benefit = $2300

State Supplement = $0 with no supplementation
= $275 with modest supplementation
= $275 with supplementation of the higher tier to the poverty level

Countable Earnings = Earnings - Earnings Disregard

Earnings Disregard = $3800 with no supplementation
= $4233 with modest supplementation
= $4233 with supplementation of the higher tier to the poverty level

EITC = .10 (earnings up to $4000)
+ .05 (earnings above $4000) .

For example, the benefit paid to a family with a public job in a state providing a modest supplement ($2/5) will be:

Benefit = (2300+275)-.52(5512 - 4233) = $1909.92.

TABLE 3
ILLUSTRATIVE ANNUAL BENEFIT LEVELS:
Two Parent Families With Children
and Single Parent Families Whose
Youngest Child is 14 or Older
(Four person family)
(1978 dollars)

Employment Status and Earnings	No State Supplements Benefits a	Total Income	Modest State Supplementation Benefits a	Total Income
No job $0	2300	2300	2575	2575
Public Job $5512	1444	6956	1910	7422
Private Job $5512	1920	7432	2386	7898
Private Job $8000	800	8800	1216	9216
	State Supplementation to the Poverty Level			
No Job $0	2575	2575		
Public Job $6063 b	1623	7686		
Private Job $6063	2126	8189		
Private Job $8000	1216	9216		

a Benefits are composed of Cash Assistance payments and the EITC for private sector employment.

b States are required to supplement public job wages in the same proportion, up to 10 percent, that they supplement the basic cash grant for the higher tier above $4700.

Table 4 shows the income position of families of different sizes in special public jobs and regular employment. For all but the largest of families, regular economy work at the minimum wage will always generate income greater than the poverty level. Employment in subsidized public jobs will provide total income at or above the poverty line for all families containing fewer than 6 persons.

Table 4
Illustrative Annual Benefit Levels Relative to the Poverty Line: Two Parent Families With Children and Single Parent Families Whose Youngest Child is 14 or older; No State Supplements (1978 dollars)

Family Size	Subsidized Public Job Total Income	Regular Job Total Income	Poverty Line
2 persons	5756	6232	4085
3 persons	6356	6832	5005
4 persons	6956	7432	6440
5 persons	7556	8032	7567
6 persons	8156	8632	8513
7 persons	8756	9232	10451

TABLE 1

ILLUSTRATIVE ANNUAL BENEFIT LEVELS:
Single Parent four Person family
Child Under 7
(1978 dollars)

Employment Status and Earnings	No State Supplements				Modest State Supplementation			
	No childcare deduction		Maximum childcare deduction a		No childcare deduction		Maximum childcare deduction a	
	Benefits b	Total Income	Benefits b	Total Income	Benefits b	Total Income	Benefits	Total Income
No Job								
$0	4200	4200	-	-	4700	4700	-	-
Public Job								
$5512	1444	6956	3244	8756	1910	7422	3706	9218
Private Job								
$5512	1920	7432	3720	9232	2386	7898	4182	9694
(EITC)	(476)		(476)		(476)		(476)	
Private Job								
$8000	800	8800	2600	10600	1216	9216	3012	11012
(EITC)	(600)		(600)		(600)		(600)	
			State Supplementation to the Poverty Level					
No Job								
$0	6440	6440	-	-				
Public Job								
$6063	2196	8259	4856	10919				
Private Job								
$6063	2699	8762	5359	11422				
(EITC)	(503)		(503)					
Private Job								
$9000	1440	9440	3960	11960				
(EITC)	(600)		(600)					

a The maximum childcare deduction is $150 per month per child up to a maximum of two children.
b Benefits are composed of cash assistance payments and the EITC for private sector employment.
c States are required to supplement public job wages in the same proportion, up to 10 percent, that they supplement the basic cash grant for the higher tier above $4700.

Illustrative Scenarios

Scenario #1

Family Status at Time of Filing

A single parent family - a mother with a child between the ages of 7 and 13.

Enrollment Actions

The individual applies for cash assistance at the local welfare (cash assistance) office. She is found eligible. She is informed that as she is not incapacitated or disabled, she will be expected to seek and accept, a part-time job while her child is in school. She is told that she will continue receiving benefits on the high track as long as she complies with the job search requirements. If no unsubsidized part-time job (or, if she prefers, full-time job) can be found, after a five week period of intensive job search, she may be placed in a subsidized part-time (or, if desired full-time) work or training position. If no subsidized or unsubsidized part-time position can be found, she stays on the full benefit payment schedule.

The woman is instructed to register with the local employment and training (E&T) office to begin the five week job search plan which will be developed for her. The mother promptly registers with the E&T office which, in turn, notifies the welfare office that she has complied with the registration requirement. At the time of registration,

an assessment is made of the woman's job readiness, and her need, if any, for labor market orientation, job seeking, skills, training, etc.

Assuming the woman is job ready, a 5 week job search plan is developed. The plan combines E&T office referrals to appropriate job openings with an agreed upon number of employer contacts which the client is to initiate. If the woman successfully obtains a private sector part-time job, she informs the E&T office she has accepted the job. The E&T office notifies the welfare office that employment has been obtained and, if possible, the wage or salary level at which she was employed.

The woman begins her job, reporting her income to the welfare office on the monthly income and earnings statement. Any adjustments in her cash assistance payment are made to reflect her earnings. She has no further contact with the E&T agency, unless her circumstances change--loss of job, child reaches age of 14, etc.

If the Individual Is Not Job Ready

Lacks recent job experience, job skills--after the five week waiting period she could be enrolled in an SPJ training program or placed in a subsidized part-time job in a project designed to utilize unskilled workers. In either event, the

E&T agency notifies the welfare agency that this individual will be involved in training or subsidized part-time employment. The client reports the resulting change in income to the welfare agency so that her cash assistance is adjusted accordingly.

Typical Status Changes

1. The only child becomes 14 years of age.

The welfare agency moves the family to the lower tier benefit and notifies the E&T agency that the mother can now be required to seek and accept full-time employment. The mother must register with the E&T agency and undergo a five to eight week period of intensive job search. After five weeks she may be placed in a subsidized job. If no placement has been made after eight weeks, the family may "flip up." If "flip up" occurs, the individual will continue to be subject to the job search requirement.

2. The woman has another child.

She notifies the welfare agency of her change of status. She is removed from the required to work category and her cash assistance payment is adjusted. No involvement of the E&T agency.

32-235 O - 79 - 14

3. The woman loses her job.

Her change in status would be reflected on her monthly income statement to the welfare agency. Welfare would refer the woman to the E&T agency for a job search stint if required and her benefits would be adjusted accordingly.

4. The woman marries an employed man.

The family's income and assets would determine cash assistance eligibility. A determination would be made as to the primary earner and participation under the parents title would be based on this determination.

5. The woman seeks and obtains a full-time job--either in the private sector or in the subsidized public sector.

If the referral is made by the E&T agency, it informs welfare of the placement. Her increased earnings would be reported on her monthly income statement so that cash assistance benefits will be adjusted accordingly.

Variation

An unemployed single parent may not be eligible for cash assistance because he/she possesses excessive income and assets. Nevertheless he/she is seeking a job. The individual would undoubtedly apply to the E&T agency for UI benefits, if eligible and be referred to the ES for job referral and placement

services. The individual would be entitled to the normal range of labor market services. Depending on ones economic and demographic status he/she could be referred to a non-welfare related training, PSE, or work experience opportunity under Titles I or II of CETA or to a State funded non-profit sponsored employment and training program. However, since the person qualifies as a principal or sole earner in a family with children, he/she is also eligible for a subsidized job placement after the five week job search period has been satisified.

The above individual could register with the cash assistance agency but would not be eligible for benefits unless his or her income and assets were reduced to the prescribed eligibility level.

Scenario #2

Two Parent Family: Head of Household as Sole Wage Earner in Family of 4 Loses Job in Private Sector

1. Application Stages

-if the individual's income and credits are sufficiently low the family may be receiving cash assistance benefits.

-assuming receipt of supplemental benefits to his low wages, when the individual loses the job there would be an incentive to report the change of income to the HEW cash assistance agency for an adjustment in his benefits.

-the individual may also apply for UI. If UI benefits are received the individual would report such receipt on their monthly report to the cash assistance agency. The cash assistance agency applies the appropriate disregard and tax rate to UI benefits to determine the level of cash assistance to be paid, if any.

-both the UI and cash assistance agencies inform the individual of the opportunity to apply to the E&T agency for a special public job.

Whether or not the individual is eligible and applies for cash assistance:

-depending on the level of UI benefits there may or may not be an economic incentive for the individual to apply for a special public job. Presuming UI benefits near or in excess of the equivalent of the minimum wage the individuals would likely defer applying for the special job until close to the end of the UI eligibility period. Meanwhile, UI suitable work criteria would apply.

-sometime during the UI benefit period or after its expiration, the individual would start the clock ticking on eligibility for a special public job and begin the minimum wage oriented job search period.

2. Changes

-at the end of 5 weeks, if unsubsidized employment at the minimum wage was not obtained, the individual would be eligible for a special public job.

-assuming a wage rate below the break even point for cash assistance, the family that might not have been eligible

for cash assistance during the period of receipt of UI benefits could once again be eligible for a cash supplement to its low wages.

-moving to a private sector job with an increase in wages would necessitate informing the cash assistance agency of income changes. This would be primarily an individual responsibility. However, if the job were obtained through the instrumentality of the E&T agency it would inform the cash assistance agency of the placement.1/ The increased income reported by the recipient would result in a reduction of cash assistance.

-the switch to an unsubsidized job would entitle the individual to the EITC, making it advantageous for the individual to report income.

-an increase in the number of children in the family would not substantially change the events previously described other than to increase somewhat the level of cash assistance or possibly make a larger family eligible for combined UI and cash assistance.

1/ Note that the E&T notification cannot serve as the basis for cash assistance benefit adjustment as there is no way for the E&T agency to know if and when unsubsidized wage payments are actually received or their exact amount.

changes in family earnings by reason of a spouse or other family members going to work would affect the level of or eligibility for cash assistance; they would not initially affect eligibility for the special public job. It is conceivable therefore, that significant increases in family earnings might occur say for example, from part time work without eliminating the designated primary earner from eligibility for a public job.

Variation

-A family might be ineligible for cash assistance, e.g., because of excessive assets, but the head of household might still be in need of E&T services and desirous of availing himself of a special public job. The same job search period would apply in such cases. There would be no need for interface with the cash assistance agency unless or until the family became eligible for cash assistance. When and if that occurrred the individual would simply continue in the work track with all the responsibilities of an expected to work, cash assistance recipient.

Scenario #3

Single Parent with Young Children under 7 Who Volunteers For Work Track

1. Application Stages

-individual applies at the cash assistance office for benefits and either is or is not found eligible. In either event, the person should be informed of the availability of special public job opportunities.

-if eligible for cash assistance the family is placed on the upper track and earnings are taxed at 50 percent, if the State does not supplement and up to 70% if the State does supplement cash assistance.

-volunteers would be referred to the E&T agency for initial employability assessment.

-as a non-mandatory she may withdraw from the program at any time without prejudice to her cash assistance eligibility.

2. Typical Charges

-any changes in income from earnings would have to be reported by the individual on the monthly report form; the E&T agency would also periodically provide the cash assistance agency with summary information concerning subsidized earnings.

-the change in age of the youngest child reaching 7 would change the parent's status to mandatory with requirements described elsewhere affecting single parents with children between 7 and 13.

-the birth of another child would not alter the parent's legal status.

-marriage would alter the family status and possibly raise determination issues regarding who the principal wage earner was if both adults had worked full time or one worked more hours or at greater pay than the other.

Scenario #4

Family Status at Time of Filing

Single individual or childless couple--eligible for cash assistance.

Application Steps

All singles and a member of a childless couple must register with the E&T agency as a condition of eligibility for cash assistance benefits. The E&T agency informs the welfare agency that the registration requirement has been met so that benefits can begin to be paid.

The E&T agency makes its initial assessment referring the individual to mainstream training opportunities (non-welfare reform) if the individual lacks marketable skills and training slots are available. Otherwise, a job search plan is developed. The plan combines E&T agency referrals with scheduled employer calls to be initiated by the individual. Every effort would be made by CETA Prime Sponsors to arrange mainstream training or work experience opportunity after a period of continuous job search.

The cash assistance office continues to make regular cash payments until it receives a notice on the monthly income report form that the individual has income above

the budget levels. If an individual has failed to carry out the prescribed job search plan the E&T office will notify the cash assistance agency of such failure.

Typical Status Change

1. A single individual marries, notifies the welfare agency of status change. If there are no children in the household, the family is treated as a childless couple. If there are children, they are treated as a family with children as described above.

2. The childless couple has a child. One member becomes eligible for subsidized job and other "parent" benefits.

Senator NELSON. I have to leave, Mr. Chairman.

Those are all the questions I have.

The CHAIRMAN. Senator Kennedy is engaged over at the Judiciary Committee. He has a statement that will be included in the record at this point.

[Senator Kennedy's prepared statement follows:]

PREPARED STATEMENT OF SENATOR KENNEDY

Senator KENNEDY. Mr. Chairman, I am glad to see the opening of hearings on welfare reform, and welcome our first witness, the distinguished Secretary of Labor, F. Ray Marshall.

Our welfare system needs to be reformed.

We cannot abide a system which allows for pitifully low supports to go to parents and children because they reside in one State rather than another.

We cannot abide a system which discourages States which want to bring families up to the poverty line, but which get insufficient Federal matching grants.

We cannot abide a system which gives incentives to families to break up in order to maximize their assistance.

We cannot abide a system which is made up of so many categories, with so many criteria, that it at once frustrates all recipients, leads to inequitable and inconsistent payments, and makes it difficult to determine if there have been overpayments or underpayments.

We cannot abide a system which discourages work through incredibly high taxes on the earned income of those who also get public assistance.

We cannot abide a system which perpetuates itself by making very limited efforts at dealing with the problems of the structurally unemployed.

The better jobs and income program goes a long way to meeting the problems which inhere in our current system. It helps create the incentives and goals which a welfare system ought to have. The program is before this Committee for review and I welcome the opportunity to explore its ramifications.

I am pleased that the proposal establishes a floor for payments for those who currently receive aid for dependent children and food stamps. Federal AFDC payments vary by a factor of 4 from the lowest to the highest States. But the need does not.

I am concerned that the proposal does not do enough to relieve the great burden on those States which try to be decent to the poor who cannot find jobs. But, it moves in the right direction, and this is an important recognition of the needs which must be met in this respect. My own Commonwealth of Massachusetts will save about one-third of its expenditures for AFDC if the program is adopted.

The program takes away much of the incentive for families to split up, and it simplifies the system in a way which should lead to less frustration and fewer disparities in the treatment of people who are equally needy.

These are important changes in the cash assistance side of the welfare question. But, Mr. Chairman, since Secretary Marshall is before us, I'd like to concentrate today on the relation to the jobs proposal.

The proposal is cognizant of the need to reduce the implicit tax which exists on earned income—which tax stems from losses in cash and other assistance as earned income goes up. I am interested in the elasticity of demand for jobs at various tax rates but it is certain that the rates must come down.

I must note that it leaves in place one of the biggest disincentives to earning more money that exists in the whole welfare system—the fact that only the poor are eligible for medicaid benefits. I would hope that we all recognize that the disincentives so created, and the financial burden on the States which is left because of medicaid costs, are very important social drawbacks and can only be met through a National Health Security system.

The proposal is also cognizant of the need to combat the problems of unemployment by providing jobs to those who are capable of working. The proposal calls for doubling the public service job slots. I herald the experience, the training and the services performed through an expansion of job opportunities.

My current questions about the jobs part of the welfare proposal are:

(A) Will there be enough jobs for those who want them?

It may be difficult to create 1.4 million public service jobs by 1981—and even more may have to be created if the unemployment rate does not fall to 5½ percent.

If there are too many people who are "expected to work" for the number of jobs available, what should we do? Should we cut back on eligibility—for instance, by not allowing jobs to be held by those who are not expected to work but who wish to do so? Or, are we prepared to increase the number of public service jobs which we will keep available? In general, how is the number of jobs created made sensitive to the need for those jobs?

(B) What kind of jobs will there be? Will they prepare people to move to non-PSE positions?

What kinds of jobs will be given to the people who are expected to work? Will they contain a healthy training component or will they concentrate on work experience? Will "work experience provide the kind of skills which allow people to obtain and keep a job outside of the PSE arena? This is a vital concern, because the training components of a PSE program affects the effectiveness with which we combat structural unemployment. It affects the number of people who can move through PSE jobs, and therefore the number of jobs that we need to create. Will the types of skills learned in these jobs prove attractive to employers; or are the skills taughts being matched with the supply of teachers rather than the demand of employers—put more bluntly, does the private sector and the regular civil service need 75,000 more library and museum aides? Or, will people get little training and then bounce back and forth between public service employment and marginal non-PSE jobs? Will people be able to leave these jobs at all or will they stack up in them? What are the ramifications of people remaining in these jobs if that should occur?

(C) What are the advantages and disadvantages respectively of paying public service employees the minimum wage or a prevailing wage?

Some have contended that the PSE workers should receive the prevailing wage in the area for the type of job which they hold. What would be the effect on the cost of the jobs program if the prevailing

wage were paid—if, for instance, we saw the need for ¼ million jobs distributed among the currently envisioned job categories? How would paying the prevailing wage affect the flow of people through the PSE program—that is the willingness of people to look for other employment? What effects would paying higher wages have on the composition of the workforce—would women and minorities get squeezed out?

On the other hand, will differential wage scales create animosity between regular employee and PSE employee, which in turn could hurt the effectiveness of on the job training. Will the paying prevailing wages affect the rate of substitution between PSE and non-PSE civil servants?

(D) Who should eligible for public service employment?

The administration plan is to provide one job per family; and to limit the eligible families to those which are couples with children. Should we limit the category of those who get first priority on jobs in this way? Will we affect the ability of families to hold together if we have a one job per family rule? And is it wise to exclude single people and couples without children from this program—after all, it is this group which tends to be younger and which, perhaps, has an even greater need for training and work experience. If we were to open the program up to any person who wants a job, what effect would this change have on the demand for jobs, at various unemployment rates?

Mr. Chairman, these are all terribly vital questions which go to the heart of the proposed welfare reform. The bill we have in front of us is a good bill. It makes great strides in the direction of providing the jobs that people need. We must all pursue the ways in which we can best match the resources at our command to conquering the unemployment which is such an important component of our welfare problem.

I hope that the investigation which we are launching today will help us meet this task.

The CHAIRMAN. There will be other questions that we would like to submit so we will keep this record open for a suitable period of time to present them.

Secretary MARSHALL. Fine.

The CHAIRMAN. Thank you.

Secretary MARSHALL. Thank you.

[The material referred to follows:]

QUESTIONS SUBMITTED TO SECRETARY MARSHALL BY THE COMMITTEE

QUESTION: Will There Be Enough Jobs for Those Who Want Them?

It may be difficult to create 1.4 million public service jobs by 1981--and even more may have to be created if the unemployment rate does not fall to five and a half percent.

If there are too many people who are "expected to work" for the number of jobs available, what should we do? Should we cut back on eligibility--for instance, by not allowing jobs to be held by those who are not expected to work but who wish to do so? Or, are we prepared to increase the number of public service jobs which we will keep available? In general, how is the number of jobs created made sensitive to the need for those jobs?

A. The Program for Better Jobs and Income already limits eligibility to the principal earner in families with children. (See eligibility question.) A strenuous effort has been made to estimate the number of jobs which must be created to assure that there is one job for each applicant who would seek employment in the program. Two independently developed computer models were employed and both estimated a requirement for approximately 1.4 million jobs at a 5.6 percent pre-program unemployment rate.

The welfare reform demonstration project will test the accuracy of our estimates. If these pilot programs suggest that demand for jobs has been underestimated, the Congress will have time to decide whether to increase allotments for the program or to introduce additional methods of rationing program benefits.

Even if the unemployment rate in 1981 is as high as 8.5 percent, a major recession, only 300,000 additional jobs would be required, a number well within our capacity to create. The reason for this is somewhat complex as it requires distinguishing among the various types of unemployment problems which public policy must address and the sorts of solutions which are appropriate to each.

The first type of unemployment to which the welfare reform program is primarily addressed is the long-term problem of structural unemployment among demographic groups suffering from various impediments to full labor market participation.

It is important to note that the demand for low-wage subsidized jobs arising from structural unemployment of this type is relatively insensitive to the general level of economic activity. Indeed, the models used to estimate the demand for these jobs indicate that for every one percentage point increase in unemployment, only 100,000 additional jobs would be required. By the same token it is important to note that a well structured program of job creation, targeted upon the most difficult to employ, is essential to insure that tolerable levels of aggregate unemployment can be reached without stimulating intolerable rates of inflation.

Two other types of unemployment must also be addressed. One is the persistent problem of high levels of unemployment in specific geographic locations, particularly aging urban centers and remote rural areas. The other is, of course, the countercyclical unemployment associated with downturns in aggregate economic conditions.

It is neither feasible nor desirable to attempt to address these divergent though overlapping problems in a single program. However, we are currently undertaking a review of overall employment and training strategy to assure that both targeted and general employment programs are sufficient to meet all exigencies in a coordinated fashion. The Administration is currently developing an overall urban and rural regional policy to address the problem of persistent geographic imbalances in job opportunities and income and, of course, we are constantly reassessing the macroeconomic policies which must be our main vehicle for assuring an adequate level of jobs and incomes in the aggregate.

On the other side of the demand-supply problem, our experience with the rapid expansion of the CETA program indicates that we will be able to create 1.4 million public service jobs. In fact it is estimated that we may be able to create as many as 1.7 million jobs.

33-235 O - 79 - 15

-- Three years ago, there were just 50,000 public service jobs under CETA. In 1975, with the onset of the recession, this figure was increased to the neighborhood of 300,000 job slots. One portion of President Carter's Economic Stimulus Package, which passed Congress in May, was to increase the size of the CETA program to 725,000 job slots. The latest increase in CETA is primarily aimed at the long-term unemployed and those with low incomes.

-- The CETA expansion is occurring at a rapid rate. We have gone from 300,000 jobs in mid-May to 753,163 jobs in early March. We are now at 104 percent of our total goal of 725,000 public service jobs.

-- Many of the new CETA jobs, particularly the Title VI project jobs, are similar to the type of jobs to be created under welfare reform. At present, there are more than 300,000 participants enrolled in 50,000 CETA projects. Many of these participants are being paid at or near wages comparable to the 1981 minimum wage.

-- Despite the rapid increase in the size of the CETA program, there are absolutely no indications that we are running out of useful services that need to be provided.

QUESTION: What Kind of Jobs Will There Be: Will They Prepare People to Move to Non-PSE Positions:

What kinds of jobs will be given to the people who are expected to work? Will they contain a healthy training component or will they concentrate on work experience? Will "work experience provide the kind of skills which allow people to obtain and keep a job outside of the PSE arena? This is a vital concern, because the training components of a PSE program affects the attractiveness with which we combat structural unemployment. It affects the number of people who can move through PSE jobs, and therefore the number of jobs that we need to create. Will the types of skills learned in these jobs prove attractive to employers; or are the skills taught being matched with the supply of teachers rather than the demand of employers--put more bluntly, does the private sector and the regular civil service need 75,000 more library and museum aides? Or, will people get little training and then bounce back and forth between public service employment and marginal non-PSE jobs? Will people be able to leave these jobs at all or will they stack up in them? What are the ramifications of people remaining in these jobs, if that should occur?

A. A complete list of typical welfare reform jobs is attached. The jobs range from providing home health care services for the elderly, teachers aides for handicapped children, and assistance in weatherizing homes of low-income homeowners. All jobs have been judged to be needed in most local communities.

Most job participants will receive on-the-job training, formal classroom training complementary to their job, or formal classroom training unrelated to their job. The remainder will receive job experience.

While transition into unsubsidized employment will be aggressively pursued, we are frank to admit that for a small fraction of the participants, those with severe skill deficiencies and a desire to work, extended periods of subsidized employment will be their only alternative to welfare. However, the majority will be employable in non-subsidized jobs for three reasons: (1) 44 percent are already able to find jobs which pay more than these jobs for at least a portion of the year; (2) participants will increase their job skills while in the program; and (3) the program includes incentives for obtaining work in the private sector.

QUESTION: Who Should be Eligible for Public Service Employment:

The Administration plan is to provide one job per family; and to limit the eligible families to those which are couples with children. Should we limit the category of those who get first priority on jobs in this way? Will we affect the ability of families to hold together if we have a one job per family rule? And is it wise to exclude single people and couples without children from this program--after all, it is this group which tends to be younger and which, perhaps, has an even greater need for training and work experience. If we were to open the program up to any person who wants a job, what affect would this change have on the demand for jobs, at various unemployment rates?

A. Restricting eligibility to the principal earner serves two objectives of the program. One objective is an attempt to assure that every family with children has access to at least one employment opportunity at an adequate wage. The principal earner rule enables us to fulfill this objective by minimizing the number of special public jobs that would go to multiple earner families. If the rule were eliminated, and if jobs were still limited to one per family, program costs would rise by at least $5 billion. The reasons for this additional cost is that many secondary earners in families with relatively high incomes would apply for the jobs.

One way out of this bind would appear to be an income test for job eligibility. However, this is undesirable for many reasons. It is administratively cumbersome; it may

discourage needy families from participating; and, most importantly, an income test used in a job program is inevitably unfair. Income limits can create serious equity problems among people who both need and want to work. For example, a widow with three children receives $5000 in pension income. With an income limit of $5000 this woman would not be eligible for the job program and her cash assistance payment would be limited to $200 because of the 80 percent benefit reduction rate on unearned income. Total income for this family would thus be $5200. Another widow and her family, however, does not have a pension. Consequently she would be eligible for a $5500 subsidized job and $1450 in cash assistance payments for a total income of $6950. By virtue of the fact that a pension was provided to the first family, the income limit has made the family substantially worse off than the latter family. This would be highly unfair.

Another family with $5001 in earnings from one parent would not be eligible for the job program. However, a similar family with $4999 in earnings from one parent could also obtain a $5500 subsidized job for the spouse, thus "leapfrogging" this family substantially above the income position of the former.

An income test is also easily circumvented since families can readily adjust their incomes to fall on the "right" side of the notch. The result is an unanticipated increase in demand for the program which in turn means that many of the most needy will not be served.

The principal earner rule is intended to avoid such "notch" problems in order to make the program as equitable and, yet, as efficiently aimed at its target population as possible. The reason why the principal earner rule is an effective targeting device is clear. If the principal wage earner in a family wants to take a minimum wage public service job, that family's total income is undoubtedly low because otherwise there would be no incentive to take the job.

While the one job per family rule does not itself promote family stability, the overall impact of this program is expected to have a stabilizing effect on families for two reasons. It would reduce involuntary unemployment and under-employment among family breadwinners and it would increase their short and long term earnings. Both these components together should considerably improve family stability by providing the assurance of an above poverty line income.

While extending job eligibility to singles and childless couples may ultimately be desirable, there are major reasons for restricting eligibility initially. Extending eligibility would severely strain budgetary resources and administrataive capabilities. Costs of the job component would rise by at least 220 percent to over $28 billion. Instead of 1.4 million jobs, CETA prime sponsors would be required to create at least 4.5 million jobs.

All people subject to the work requirement, including those without children, are eligible for job search assistance. Childless people may also be eligible for public service employment under the other CETA titles, the Older Americans and Green Thumb programs, and the $1 billion Youth Employment Program launched this October.

For these reasons the Administration has limited eligibility to the principal wage earner. Expansion of eligibility should occur only after careful evaluation of the success of the Administration's program.

QUESTION: What are the Advantages and Disadvantages Respectively of Paying Public Service Employees the Minimum Wage or a Prevailing Wage:

Some have contended that the PSE workers should receive the prevailing wage in the area for the type of jobs program if the prevailing wage were paid--if, for instance, we saw the need for 1.4 million jobs distributed among the currently envisioned job categories? How would paying the prevailing wage affect the flow of people through the PSE program--that is, the willingness of people to look for other employment? What effects would paying higher wages have on the composition of the workforce--would women and minorities get squeezed out?

On the other hand, will differential wage scales create animosity between regular employees and PSE employees, which in turn could hurt the effectiveness of on the job training. Will the paying prevailing wages affect the rate of substitution between PSE and non-PSE civil servants?

A. It is important to understand the differences and similarities of the minimum wage rate in 1978 and 1981, prevailing wage rates, and the administration's welfare reform wage rates.

The minimum wage rate in 1978 is $2.65 per hour. In 1981 the minimum wage will be $3.35. This is an annual increase of 8.2 percent. In addition it is important to note that the 1978 minimum wage was 15.2 percent higher than the 1977 minimum as a result of the new minimum wage law.

Since prevailing wage is defined as that wage paid for a specific type of employment in a particular area, prevailing wages will vary.

Wages paid under the Administration's welfare reform proposal will also vary. Eleven states will pay $3.35, the 1981 minimum wage. Thirty-seven states are expected to pay 10 percent above the minimum wage. The remaining two states are expected to pay a wage that is somewhere in between. In addition 15 percent of the job slots in all states are reserved for work leaders and they will be paid wages 25 percent higher than other workers.

Thus the average wage paid in this program will be $3.72 an hour. However, in the 37 states that will supplement wages by ten percent, the average wage will be $3.82 an hour. Putting this in perspective, a wage of $3.82 an hour in 1981 is comparable to a 1978 wage of $3.21.

It is the Secretary of Labor's stated intention to create welfare reform jobs for which the prevailing wage is at or near the welfare reform wage (average of $3.72 per hour). The current stimulus buildup contains many types of projects for which the welfare reform wage and the prevailing wage are in the same range.

Further, in many local communities subsidized jobs will be created in new areas of production or service for which no prevailing wage has been established. Existing job types may also be restructured so that some of their component activities can be performed by less skilled workers. In order to better serve the target population, the welfare reform jobs will, in the main, be in relatively labor intensive activities requiring large numbers of labor skilled workers. These

features should minimize the instances wherein welfare reform jobs undercut wages in similar unsubsidized employment.

In those cases where a welfare reform job pays less than an existing position in the private sector, enough training can be built into the subsidized slot to justify payment of "apprenticeship" wages. This will occur most frequently in local areas experiencing a shortage of skilled labor in particular occupations.

We fully expect CETA sponsors to consult extensively with the appropriate employee unions before special public jobs are created and to take their views into account. This will help to assure that jobs are not created which displace or adversely affect regular employment.

Finally, no one would be required to take a job in the private sector at a wage lower than that normally paid for that type of work. No one's cash assistance will be reduced if they refuse such a job.

Effect of increasing the proposed welfare reform wage rates. An increase in the wages in the jobs component will trigger a rapid increase in the costs and administrative burden of the program. Our analysis indicates that if the wages were raised, the number of applicants for these jobs would increase at a rate greater than the increase in the wages. For example, a 10 percent increase in wages is

predicted to increase the demand for jobs by 14 percent. The total cost of the program would increase by an even greater percentage since the number of jobs required would rise and the cost per job would also go up. A 10 percent increase in wages would increase program costs (in 1978 dollars) by 25 percent or $2.2 billion.

The goal of this program is to provide work opportunities for adults in families with children who cannot find full-time work at an adequate wage. This program is not designed to serve full-time workers in low-wage jobs who might prefer a subsidized job if the wages were raised. If you increase the number of people applying for these jobs, you run the risk of not being able to serve those people most in need of this program including women and minorities.

As previously mentioned, welfare reform jobs will pay prevailing wages. Where the total weekly compensation is below that normally received by workers in a given type of job it will be because, workers will be receiving training as well as work experience. The greatest social stigma is in not being able to find employment of any kind. We believe the President's proposal by assuring that at least one job per family will be available to parents will enable them to become self-supporting, will raise self-esteem and will provide them an opportunity to prepare for higher level jobs.

The welfare reform jobs program will provide new work opportunities for hundreds of thousands of workers who otherwise would be unemployed, working sporadically, or paid below the minimum wage. An average welfare reform wage of $3.72 an hour in 1981 would be higher--when adjusted for inflation and the historical rate of wage growth--than the wages currently earned by the principal worker in 2 million families with children. These are the people this program is designed to serve.

The CHAIRMAN. The hearing is now adjourned.

[Whereupon, at 11:12 a.m., the committee recessed, to reconvene Thursday, March 23, 1978.]

BETTER JOBS AND INCOME ACT, 1978

THURSDAY, MARCH 23, 1978

U.S. SENATE,
COMMITTEE ON HUMAN RESOURCES,
Washington, D.C.

The committee met, pursuant to recess, at 9:38 a.m., in room 4232, Dirksen Senate Office Building, Senator Gaylord Nelson presiding pro tempore.

Present: Senators Williams (Chairman), Nelson, and Chafee.

Senator NELSON. Our witness today is the Secretary of Health, Education, and Welfare, Mr. Joseph Califano.

Yesterday the committee received testimony from Secretary Marshall.

Secretary Califano, the committee is pleased to have you here today. You may present your statement however you desire.

STATEMENT OF HON. JOSEPH A. CALIFANO, JR., SECRETARY, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE, ACCOMPANIED BY MICHAEL BARTH AND DANIEL MARCUS

Secretary CALIFANO. Mr. Chairman, if I may, I will read my statement to open the hearing.

Mr. Chairman, I welcome this opportunity to discuss with you the President's program for better jobs and income—a far-reaching proposal to provide work opportunities for low-income Americans and reform the Nation's welfare system. With the progress that has already been made in the House and with the assistance of this committee and the Finance Committee, we can achieve significant reform—and we can achieve it in this Congress.

Mr. Chairman, you and the members of this committee have long been leaders in increasing work opportunities and income security for millions of this Nation's citizens. And the administration is pleased to work with you on the critical task of restructuring the welfare system.

Secretary Marshall discussed the job opportunities portion of the President's program with you yesterday. I shall focus on the cash assistance provisions of the bill in my testimony.

But I wish to emphasize one point that is at the core of the President's program—the jobs and cash assistance components are closely related—each is vital to the success of the other. Indeed, the chief innovation of the President's program is that it proposes a coordinated strategy of cash assistance and jobs to deal effectively with the problem of poverty for all low-income Americans by simul-

taneously providing cash assistance and creating real work opportunities and work incentives for heads of families.

In discussing welfare reform both with Members of the Congress and across the Nation, I have found that there is a consensus that cuts across party lines on the urgent need for reform of our existing welfare system—or nonsystem, to put it more accurately.

The present system is antiwork, antifamily, and susceptible to error and fraud. It is beset by serious problems that must be remedied:

Our existing programs contain work requirements but they lack work opportunities to make those requirements meaningful. The notion that able-bodied welfare recipients do not want to work has no basis in fact. But this perception is widespread, and it undermines public confidence in our welfare system. Until we provide real work opportunities for welfare recipients, we will never be able to dispel this myth.

The existing programs—aid to families with dependent children, supplemental security income—for the aged, blind, and disabled—food stamps—have left irrational gaps in coverage that must be closed.

Different rules and eligibility standards in the three major Federal programs, and in the separately administered State and county AFDC programs, have led to unnecessary administrative complexity and to confusion for recipients, officials, and the public.

There are wide disparities in benefit levels in different parts of the country—even between neighboring States—that go far beyond any conceivable cost-of-living differences.

The existing welfare system contains substantial family-splitting incentives. In many States, a family is better off if the father leaves the home.

The current system—because of its administrative complexity and the lack of uniform rules—is unduly susceptible to fraud, abuse, and error.

The current system places unjust and unacceptable fiscal burdens on State and local governments.

Coming up with a comprehensive program to solve these benefits is no simple task. We want to assure that benefits are adequate, but also that work incentives are meaningful. We want to raise benefit levels in the low-benefit States while, at the same time, providing fiscal relief to the States and localities that have been shouldering more than their fair share of the national welfare burden.

These are all important goals that must be pursued in a reform program. But they must be pursued in a balanced fashion if none of them is too slighted or ignored. And they must be pursued within the limits of available Federal resources.

In short, there is no such thing as a "perfect" welfare reform proposal. But on the basis of our extensive consultation with State and local officials, with interest groups, with academic experts, and with Members of Congress, I am convinced that the President's program represents a balanced and constructive approach.

No doubt Congress will make changes—indeed, the legislative process has already proceeded quickly with the outstanding work

of the Special House Subcommittee on Welfare Reform. But I believe that in its structure and basic principles, the administration's proposal sets out the proper agenda for welfare reform.

As I noted, the program for better jobs and income consists of two basic components—a consolidated cash assistance program with uniform national rules and a work opportunity program under which up to 1.4 million public service jobs will be created to assure a work or training opportunity for every welfare family with children.

The details of the program are set forth in the attachment to my statement, which I would like to make part of the record.

Senator NELSON. It will be printed in full in the record.

[The following was received for the record:]

32-235 O - 79 - 16

ATTACHMENT

DESCRIPTION OF PROGRAM FOR BETTER JOBS AND INCOME

I. Who will be helped.

II. How they will be helped.

III. The Roles of the Federal and State Governments.

IV. New Uniform Rules

I. WHO WILL BE HELPED

It is estimated that 40 million or more people are at some time during the year presently eligible for Aid to Families with Dependent Children, Supplemental Security Income, and/or Food Stamps. Three quarters of those eligible--or 30 million people -- now receive benefits from one of these Federal programs.

But under present law many of the poor receive little or no cash assistance from the Federal government because they do not qualify under the narrow categories for eligibility.

For example, single individuals and childless couples with little or no earnings are only eligible for food stamps, and are not eligible for AFDC. And in many States families with children are ineligible for assistance if the father is present in the home.

The Administration believes a jobs and cash assistance program to help low-income people should reach all needy individuals, not just those who fit into a narrow category.

Thus the Better Jobs and Income program provides assistance in the form of employment and/or cash benefits for singles, childless couples and families with children. At the same time the Administration does not favor

providing aid to those who are not classified as low-income.

Under the President's proposal, 36 million people would be eligible for jobs and cash benefits, four million fewer than are eligible under present law.

Of those four million no longer eligible for cash assistance, some one million are AFDC recipients who now have high incomes--many at twice the poverty level--but who manage to stay on welfare because of present rules.

When individuals with incomes substantially above the poverty line receive benefits, the credibility of the welfare system is undermined. Our program, as explained later, reforms the rules to assure that only the needy are eligible to participate in the program.

While four million fewer people are eligible, we estimate that 32 million people will actually receive benefits some time during the year from the basic cash assistance program (an increase of two million over the present system). The reason for increased participation is that many who are eligible for food stamps but do not apply for those benefits--especially the elderly and disabled--will, we believe,

apply for cash assistance. In addition, participation will increase because the application process will be simpler.

In discussing numbers of participants in the President's proposal, it is important to recognize that most of the families in the program will be headed by someone who is working and who is receiving cash supplements to wages, not cash assistance alone.

Indeed, under the new system, reliance on welfare payments will be sharply reduced because the number of single-parent family heads who support their families primarily through earnings will increase substantially.

In sum, fewer will be eligible for the Program for Better Jobs and Income than for AFDC, SSI and Food Stamps; but more people will actually participate in the program, and most will receive benefits in the form of both jobs and job supplements. And those eligible will be more uniformly concentrated in the low-income brackets.

II. HOW LOW INCOME PERSONS WILL BE HELPED

The Program for Better Jobs and Income is intended to (1) increase job opportunities for the low-income population, and (2) consolidate our major income support programs into one simple and efficient program.

In broad outline, the proposal would:

- o Attempt to assure up to 1.4 million public service jobs for the primary earner in families with children, which should serve as many as 2.5 million different people on a temporary basis during any year. Our emphasis is on providing income through jobs and wages wherever possible.
- o Consolidate the three current major income assistance programs--Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI) and Food Stamps--into a single system with simpler, uniform rules which will make the system fairer and significantly less susceptible to fraud, abuse, and error.
- o Permit families headed by two parents to receive income supplements if the family's earnings are insufficient to support the family. Low-income fathers would no longer have an incentive

to leave their wives and children in order to make families eligible for cash support.

- Provide a basic Federal benefit floor for all poor persons, which will substantially increase income support in some States. Higher benefit States will be encouraged to supplement the basic Federal minimum to maintain income support at present levels.
- Provide for a transition period after the new rules go into effect during which Federal support will help States maintain benefits to existing recipients in current programs. During this period, States will be required to maintain a substantial portion of their present level of expenditures in supporting programs for low-income individuals.
- Expand the current Earned Income Tax Credit for workers in private sector and regular public sector jobs. The credit will supplement the income of low wage earners and serve as a positive incentive for work effort. In order to ensure that private employment will pay more than special public employment, those who are working in the new specially-created public sector jobs will not be eligible for the expanded Earned Income Tax Credit.

The program will provide assistance in three basic ways to low income Americans.

First, it will provide job opportunities for those who need work.

Second, it will provide a work benefit cash supplement for those who work but whose incomes are inadequate to support their families.

Third, it will provide income support for those unable to work due to age, physical disability, or the need to care for children six years or younger.

A. Those Required to Work

At the outset, we make an important distinction between those who are required to work and those who are not. In making this social and economic judgment we recognize that many in the "not required to work" category will nonetheless want to--and will in fact--work.

The following categories of persons are required to work under the Better Jobs and Income Program: The principal wage earner in a two-parent family with children, singles and childless couples, and single parents with children 14 and over. These persons must work full-time if such work is available.

Those in the not required to work category include the aged, blind, and disabled and single parents with children under age 7.

Single parents with children age 7 through 13 fall into a special category. They will be required to accept available part-time work which does not interfere with caring for children. But because they have young children, they will receive benefits at the same level as those not expected to work.

We believe that, if the American people are confident that those able to work are working, they will be willing to support a reformed system of jobs and cash assistance for low income citizens. They do not have that confidence now--and understandably so.

B. Job Opportunities

The central element of our proposal is an innovative effort to match low-income persons with available work in the private sector.

It will be the responsibility of State and local officials to assure an unbroken sequence of employment and training services, including job search, training and placement. Prime sponsors under the Comprehensive Employment and Training Act (CETA), State employment

service agencies and community-based organizations will play major roles in this effort, as Secretary Marshall will explain in greater detail later in these hearings.

Our goal is simple--to provide a job for the principal wage earner in every low-income family. In addition to placing people in private sector jobs, we estimate that we may need to create up to 1.4 million special public service jobs to assure employment for all principal wage earners in low-income families.

Our job creation effort will ensure that, in conjunction with cash assistance, most families with children and one parent able to work will have an income above the poverty line. For example, a family of four will have an income at least 20 percent above the poverty line if the principal earner has a full-time job in the private sector or in a regular public job at or above the minimum wage. The same family will have an income at least 10 percent above the poverty line if the principal earner has a special public job. In either case the accomplishment is significant. Millions of households will move above the poverty line and most of the income of these families will be from work.

This new jobs program for low income Americans is carefully designed to avoid disruptive effects in the regular economy:

- Applicants will be required to engage in an intensive 5-week search for regular employment before becoming eligible for a public service job. Those working in public service employment will be required to engage in a period of intensive search for jobs in the private sector every 12 months.
- To encourage participants to seek employment in the regular economy, the basic wage rate will be kept at or slightly above the minimum wage.
- Every effort will be made to emphasize job activities which lead to the acquisition of useful skills by participants so that they may ultimately obtain employment in the regular economy. Training activities will be regular components of most job placements.

The development of this job program is clearly a substantial undertaking requiring the close cooperation of all levels of government. We are confident it will succeed.

Thousands of unmet needs for public goods and services exist in our country. Through an imaginative program of job creation we can insure that the goals

of human development and community development are approached simultaneously. Public service jobs can be created in areas such as public safety, recreational facilities and programs, facilities for the handicapped, environmental monitoring, child care, waste treatment and recycling, clean-up and pest and insect control, home services for the elderly and ill, weatherization of homes and buildings and other energy-saving activities, teachers' aides and other paraprofessionals in schools, and school facilities improvements.

C. Benefits for Work

The Better Jobs and Income program will augment earnings for those who are required to work but whose incomes are inadequate to support their families.

This supplement will be provided both through a work benefit cash supplement and through the expanded earned income tax credit.

Work Benefit

The work benefit will supplement the earnings of two parent families, single people, childless couples and single parents with no children under fourteen.

The proposal calls for an eight-week period of job search with maximum cash assistance of $2,300 (family of four) for a two-parent family or single-parent family whose youngest child is 14 or older, followed by an increased benefit of $4,200 (for a family of four) if no job is available for an eight-week period. It thus preserves an incentive to seek and accept employment and also protects families against program or labor-market failures over which they have no control.

Benefits will be reduced after the first $3,800 of earnings by fifty-cents for each dollar. The purpose of not counting, that is, disregarding the initial $3,800 is to bring immediate and substantial rewards from work.

A four-person family ceases to be eligible for benefits at an income of $8,400.

Single persons would receive benefits of $1100 which would phase out at $2200 of earnings and childless couples would receive benefits of $2200 which would phase out at $4400.

Earned Income Tax Credit

The second way in which earnings will be supplemented is through the expanded earned income

tax credit. The expanded EITC will not only enhance work incentives but will provide tax relief for a family of four with income up to $15,650.

The current Earned Income Tax Credit (EITC) is an excellent mechanism to provide tax relief for the working poor. We propose to expand this concept to provide benefits to more families, to provide relief to low and modest income working people, and to improve work incentives.

Currently, the EITC is a cash credit or rebate of 10 percent on all earnings up to $4,000, for a maximum credit of $400. The credit is phased down by $1 for every $10 of earnings on adjusted gross income over $4,000, and disappears at $8,000 of adjusted gross income. This structure creates a work disincentive for families with earnings between $4,000 and $8,000, many of whom will be receiving cash assistance under the Administration's proposal.

The proposed EITC will have the following features:

- A 10 percent credit on earnings up to $4,000 per year as under current law.
- A 5 percent credit on earnings between $4,000 and the point at which a family ceases to be

eligible for welfare benefits in a state with with matching supplements. This level is $9,100 for a family of four.

- A phase-out of the credit beyond the point at which the family ceases to be eligible for cash assistance. The credit will provide benefits to a family of four with income up to $15,650.
- The credit will be paid regularly by the Treasury Department through the payroll withholding system.

A persistent and effective incentive for workers to take regular unsubsidized public or private employment, rather than subsidized public service employment, will be created by applying the Earned Income Tax Credit only to earnings from unsubsidized jobs.

D. Income Support

The income support cash benefit of the Better Jobs and Income program is available for those not expected to work; the aged, blind and disabled, and single parents with children 6 or under. As noted, single parents with children between 7 and 13 will receive cash assistance on this schedule, although they will be expected to work if part-time employment is available.

Benefit levels for a family of four with no other income will be $4,200. If these people choose to work--and many of them will--their benefits will be reduced by 50 cents for every dollar earned. Federal benefits would thus phase out at $8,400.

The aged, blind, or disabled individual would receive a Federal benefit of $2,500 and a couple would receive $3,750--more than they are now receiving. That is higher than the SSI benefit for either group--about $100 higher for a couple and $120 higher for a single person.

An aged, blind, or disabled individual ceases to be eligible for benefits at $5,000 of earned income, and a couple at $7,500.

The decision to set benefit levels for a non-aged, blind, or disabled family of four at $4,200 was not an easy one. It is clear that it is economically impossible and undesirable to set Federal benefits at the level of the highest State. On the other hand the benefit could not be set so low as to cause a hardship on present recipients. The benefit level of $4,200 exceeds the amount of Federal dollars going to recipients for AFDC and food stamps in all but seven States (Alaska, Hawaii, Idaho, South Dakota,

Utah, Vermont and Wisconsin)). And the benefit level exceeds the total amount, State and Federal, going to recipients for AFDC and food stamps in 10 States (Florida, Missouri, Louisiana, Georgia, Arkansas, Texas, Alabama, Tennessee, South Carolina, and Mississippi).

In short, the Federal government is making a greater effort to help those in need--and ease the burden on States, counties and cities--than ever before. Our rules for State supplementation of the Federal benefit levels allow the States to take into consideration regional variations in the cost of living, and in most instances, we expect the total assistance provided low-income citizens under the combined Federal-State program will be substantially higher than under the Federal program alone.

E. Disregards and Benefit Reduction Rates

Both the work benefit and the income support programs have benefit reduction rates--the rate at which cash assistance is reduced as earnings rise. A note about them is in order, because they have tremendous implications for the cost of the program, the size of the caseloads, and the tradeoffs between the conflicting goals of welfare reform.

32-235 O - 79 - 17

The system of "benefit reduction rates" is designed to address a fundamental problem: if cash benefits are reduced at too steep a rate as earnings increase there will be no incentive for work.

For example, if the cash benefit is reduced by $1 for every $1 earned, there is obviously no work incentive whatsoever.

If the cash grant is reduced 90 cents for every $1 earned, there still may be no incentive, because travel costs and other expenses of going to work will mean there is still little or no real improvement in the individual's financial condition as the result of employment.

But, there is also a problem at the other extreme. If the cash benefit is reduced by only 25 cents for every $1 earned, there is good incentive to work (income increases by 75 cents, less work-related expenses for every $1 earned) but families will continue to receive cash assistance at income levels that seem much too high to many taxpayers.

Accordingly, benefit reduction rates ranging from 50 percent to 70 percent are provided in the Administration's program--the amount varies depending on the extent to which States supplement, on whether individuals are expected to work and on other features.

But for those expected to work the rate should not, under our plan, exceed 52%. This will ensure an adequate work incentive.

III. THE FEDERAL AND STATE ROLES

Given the proliferation of programs under the present State-Federal welfare system, complexity is unfortunately the rule, not the exception. The lines of responsibility between State and Federal governments are often blurred. Each State has different rules and benefits, with little rationale for the differences. The confusion that too often characterizes the administration of the present welfare system results in error, waste or fraud. It is costly to the taxpayer and demeaning to the recipient.

The Program for Better Jobs and Income aims to define State and Federal responsibilities more clearly and to allocate financial responsibilities in a manner which will alleviate some of the burden now being borne by State and local governments.

The Program we propose will increase Federal participation but will maintain an important role for the States.

Every State will be assured that it will save at least ten percent of its current welfare expenses

in the first year of the program, with the potential for increased fiscal relief thereafter. Thirty-four States will save more.

Every State is free to supplement the basic benefits, and is eligible for Federal matching payments for supplements structured to complement and maintain the incentives of the Federal program.

For a family of four, with no income, the Federal government will pay 75 percent of the first $500 supplement and 25 percent of any additional supplement up to the poverty line, so long as State programs do not provide for benefit reduction rates on required-to-work families that exceed 52 percent. These State supplements will be required to follow Federal eligibility criteria to help achieve nationwide uniformity.

Aside from such matching supplements, the States are free to continue to administer non-matching supplemental assistance programs of their own using their own rules and eligibilty criteria. Indeed, they are encouraged to do so during a transition period for the purpose of "grandfathering" existing SSI and AFDC beneficiaries--that is, continuing payments at current levels to

those existing beneficiaries until their circumstances change.

Except for such "grandfathering" supplements, however, the States must assure the Federal government that their own supplementation programs will not result in benefit reduction rates that exceed the maximum permitted under the Federal program to assure adequate work incentives (70 percent for those not expected to work and 52 percent for those expected to work). A State which violates its assurance in this regard will be subject to sanctions, appropriate to the violations, including a reduction in the Federal payments they would otherwise receive under the program.

Where States supplement the income support they must also proportionately supplement and the public service employment wage, up to a maximum of ten percent.

During a three-year period the States will be required to maintain a prescribed minimum percentage of their current welfare expenditures, in order to ease the transition to the new system for those now receiving benefits. In the first year of the new program, each State will be required to spend at least 90 percent of its current expenditures in the AFDC and SSI programs, emergency assistance

and general assistance or similar income maintenance programs. In the second year of the program, States will be required to maintain 75 percent of current expenditures and in the third year, 65 percent. The maintenance of effort requirements will phase out after three years.

At the same time, the Federl goverment will--during a transition period lasting five years--protect the States against increased expenditures resulting from the new program. The Federal government will, in essence, hold the States harmless for expenditures that exceed the following items: the 10 percent State fee, matching supplements up to current benefit levels, and grandfathering supplements for AFDC and SSI beneficiaries.

States will have the option to assist in the administration of the program. They will be able to operate the crucial intake function serving applicants so as to make possible effective coordination with social services. The Federal government will operate the data processing system, calculate benefits, and issue payments.

We recognize that States opting for State administration of the intake function have very real

government to the needs of their citizens. For that reason we are participating in and cooperating with an on-going task force made up of representatives of the American Public Welfare Association, the National Governors' Conference, and the National Association of Counties to identify and review potential Federal-State problems. We also recognize that if States choose to convert to full Federal administration the rights of their employees must be protected. Our legislation provides that, consistent with Federal civil service policies, State employees will have the highest priority for placement in the new welfare system.

The Federal government will provide $600 million in block grants to the States to provide for emergency needs. These grants will assist the States in responding to sudden and drastic changes in family circumstances. In addition, a special $20 million fund has been set aside for the Secretary to allocate to the States for emergency need expenditures for special categories of needy families, including migrant workers.

The Federal government will provide 30 percent above the basic wage for fringe benefits and administrative costs of the job program, and will reimburse

the States for 90 percent of the costs of administration of the work benefit and income support program. As an incentive to efficient administration by the States, we will increase up to 110 percent the level of reimbursement for administrative expenses in States whose administrative performance is at an unusually or exceptionally high level.

In the first year of this program, States and localities would receive $1.75 billion in fiscal relief, while at the same time being able to ensure that no current SSI or AFDC beneficiary receives a reduced benefit.

In subsequent years as current recipients leave the rolls and as the maintenance of State effort requirement declines from 90 percent to zero after 3 years, the opportunities for fiscal relief will increase.

Under our program for fiscal relief, States will be required to pass through such fiscal relief to municipal and county governments in full proportion to their contributions.

A Note on Medicaid

To ensure that the new Better Jobs and Income program will not lead to large new costs for the

States under Medicaid, the bill provides for preservation of existing Medicaid eligibility criteria. We believe that our National Health Insurance proposal, which we will present to the Congress this year, is the appropriate vehicle for dealing with the problems presented by those existing Medicaid rules, and we intend to synchronize the implementation of National Health Insurance with this program. But should that not prove feasible, our proposal will ensure that the new program does not automatically expand Medicaid rolls and impose unanticipated new costs on both the States and the Federal government.

IV. NEW RULES FOR CASH ASSISTANCE

Every jurisdiction in America today has different rules for determining welfare eligibility and benefit schedules. Many of these rules--the way in which income an assets are counted, how they are reported and what group of people constitutes a filing unit--have tremendous cost and caseload implications.

The present system of rules is largely responsible for the headline-grabbing error and fraud rates and for the horror stories of higher income people receiving benefits.

The eligibility rules for the consolidated cash assistance program will be tightened to assure that the assistance is targeted on those who are most in need.

The Accountable Period

Present programs use prospective periods of varying lengths (3 months in SSI, 1 month in AFDC and, generally, in Food Stamps) for determining need. An applicant's entitlement is determined by anticipated income.

The Administration's proposal will measure income retrospectively, using an applicant's actual income over the preceding six months. This method will assure that welfare dollars go to those most in need by preventing families with relatively high but irregular incomes from receiving benefits. (For example, a family headed by a teacher who gets paid only during the ten-month school year would no longer be able to collect benefits in the summer.)

A six-month period is more equitable than a shorter period, since it increases the likelihood that families with similar annual incomes will receive similar benefits. A retrospective accountable

period avoids the problems of overpayment inherent in the present system of determining need on the basis of estimated future income.

Only families earning more than $8,400 a year are likely to be adversely affected by the longer accountable period. The following table indicates the number of months that a family of four with no current income but previous earnings would have to wait.

WAITING PERIOD
BEFORE ELIGIBILE FOR BENEFITS

A person with no income when applying but with previous annual earnings of:	Under AFDC Current Accountable Period:	Under Proposed Six-Months Accountable Period:
	Eligible for benefits in:	
$5,200 (minimum wage)	1st month	1st month
8,400 (proposed eligibility ceiling)	1st month	1st month
10,600 (average wage in manufacturing)	1st month	2nd month
12,000 (city school teacher)	1st month	3rd month
15,000 (construction worker)	1st month	4th month

To help those who suffer temporary need, the Federal government proposes to assist States in financing Emergency Needs Program.

The implications of shorter retrospective accountable periods are enormous. Use of the present accountable periods would increase the cost of our proposal by about $3 billion. The caseload would increase by about 25 percent. Even shortening our six months accounting period from 6 months to 3 months would increase the cost by approximately 2 percent and add approximately 4 percent more recipients to the program.

Regular Reporting

Unlike most current welfare systems, the Administration's proposal will use a regular system of periodic income reports on which to base benefits. Recipients with employment income will be required to report monthly; others less frequently.

This system of reporting is expected to reduce overpayments by hundreds of millions. When monthly reporting and retrospective accounting was adopted in Oakland, California, error rates in the AFDC program there fell from 22.5 percent to 7 percent.

Standard Definition of Income

Under the proposal, "countable income" (or income that counts in determining eligibility) will

include 50 percent of wages from a job, 80 percent of non-employment income (income from dividends, property, private pensions, or social insurance programs), and 100 percent of any income from other Federal means-tested assistance programs such as veterans pensions (as is the case under present law). Expenses of child care, up to certain limits ($150 per month for each child up to a maximum of $300) will be deducted from earnings in determining "countable income" in order to encourage work.

A Standard Method of Handling Assets

The proposal contains an asset test designed to assure that persons with low-income but substantial assets, such as a bank account, do not receive a benefit.

The Program for Better Jobs and Income proposal standardizes the treatment of liquid assets--cash or property quickly convertible to cash--in determining eligibility and computing cash payments. A percentage of the value of assets up to certain limits is imputed to income. The market value of non-business assets may not exceed $5,000 and the

equity value of business assets may not exceed a limit to be specified in regulations.

Exclusions--Excluded from countable assets will be:

--the first $500 of liquid assets

--the total value of owner-occupied housing

--the total value of household goods and personal effects.

--the retail value of vehicles used for non-business purposes, the amount to be determined by regulations.

We believe that these new rules will assure that benefits go to those in need in as fair and equitable a manner as possible.

Secretary CALIFANO. Its essential features are the following:

The proposal extends coverage to all poor families and individuals in a consolidated cash assistance program that replaces the existing categorical programs—AFDC, SSI, and food stamps.

All able-bodied adults—except those with custodial responsibility for young children or disabled individuals—are required to work.

The principal earner in every family with children is eligible for a special public service job, paying at least the minimum wage, if no private sector job can be found.

The program sets national uniform eligibility standards and rules to improve equity and to make the system more understandable and administrable.

A uniform national benefit floor will be established, substantially reducing existing disparities in benefits among the States. The basic Federal benefit of $4,200 for a family of four should exceed the current Federal share of AFDC and food stamp benefits in all but seven States.

Federal subsidies will give the States incentives to increase the basic Federal benefit through supplements that could be administered as part of the basic Federal program. The subsidy formula will insure that every State could retain or improve its existing benefit levels while lowering its own expenditures.

The existing earned income tax credit in our Internal Revenue Code will be expanded to provide additional tax relief to the working poor and to improve work incentives.

Administrative reforms will promote efficiency and accuracy. The most important of these are retrospective accounting, under which benefits are calculated on the basis of actual rather than predicted income, and regular monthly reporting of income by recipients.

The bill includes a new $600 million program of grants to the States for meeting emergency needs. These grants will enable the States not only to meet traditional emergency needs, but also to provide short-run help to the small fraction of families who are not immediately eligible for cash assistance because of retrospective accounting and who require some assistance before they became eligible.

The States will have the option of retaining the crucial administrative functions of intake and eligibility determination—that is, running the welfare offices. In all cases, however, State administration will be subject to uniform Federal rules and oversight, and the Federal Government will have the authority to take over administration in cases of inadequate performance by the State.

A single national computer system will link the cash assistance programs in every State. This will greatly increase our capacity to reduce error and fraud but also to insure that recipients get what they deserve—no more, but also no less.

Transitional "hold harmless" provisions will insure a minimal amount of fiscal relief for every State. In fact, most States will realize considerably more fiscal relief than this minimum, as a result of the higher Federal sharing in basic benefit levels. We estimate that the administration bill will provide almost $2 billion in fiscal relief to the States the 1st year that it goes into effect.

Let me also outline the significant ways in which the jobs program and the cash assistance reform work together.

First, the assurance of a job for the principal earner in every family with children makes it more practicable to achieve one of the primary goals of welfare reform—extension of coverage to two parent families. Some have been reluctant to extend cash assistance to families with a member society expects to work—no matter how needy the family may be. Others have been skeptical that work requirements for such families will, in fact, be effective.

We have met these concerns head on by combining work requirements with a program designed to assure a job for the principal earner in each of these families Extension of coverage to two parent families will not increase dependency, but will assure adequate income primarily through wages paid for meaningful work.

Second, the jobs program—in conjunction with supplementary cash assistance—will assure, for the first time, that all families with a full-time worker will have an income well above the poverty line. A family of four whose principal earner obtains one of the special public service jobs, for example, would have a total income of almost $7,000 in 1978—comprised of $5,512 in wages and $1,444 in supplementary cash assistance. The majority of these families would receive even more, since they reside in States that would supplement both the basic Federal cash benefit and the wages available in public service jobs.

Third, the cash assistance benefit structure, in conjunction with the expanded earned income tax credit, will assure that it is always more profitable for an individual or family to work than not to work, and that it is always more profitable to work in the private sector than in a special public service job.

Thus, the President's program is not merely "welfare reform," but a coordinated jobs and cash assistance strategy that will assure low-income Americans adequate income by helping them enter the world of work.

This essential fact must be borne in mind in evaluating the cost of the proposal. The program for better jobs and income will not significantly increase existing Federal expenditures on cash assistance; the bulk of additional Federal expenditures would go to increase employment opportunities for cash assistance recipients. We think this is money spent well.

Senator CHAFEE. Could I ask a question here, Mr. Chairman?

Mr. Secretary, do I understand that the program is going to cost more than currently, I assume by what you say here in the last clause, is that correct?

Secretary CALIFANO. That is correct.

Senator CHAFEE. Will you get to the cost estimates later?

Secretary CALIFANO. Well, there are a whole host of cost estimates. Congressional Budget Office has one and we have one. I will get to them in general terms.

Senator CHAFEE. Fine. I do not want to interrupt you now.

Secretary CALIFANO. Let me turn now from the merits of welfare reform to the equally relevant question of whether it is realistic to expect that a meaningful reform program can be enacted this year. I believe strongly that the answer is, "Yes."

We have made substantial legislative progress since the President submitted the program for better jobs and income to the Congress

last August. Indeed, given the procedural complexities, the progress has been significant. After the administration bill was introduced in September, the Speaker of the House, together with the chairman of the three standing committees to which the bill was referred—Ways and Means, Education and Labor, and Agriculture—agreed to establish a special Welfare Reform Subcommittee to overcome the jurisdictional difficulties at the subcommittee level.

Throughout the fall and during January of this year, the welfare reform subcommittee in the House, chaired by Representative James Corman, conducted extensive hearings and marked up the administration's bill. The leadership of Representative Corman and the hard work and patience of all 29 members of that subcommittee had paid off. The subcommittee has reported out a bill that preserves the basic structure and principles of the administration proposal and represents a major step toward enactment of welfare reform.

Senator Moynihan's Public Assistance Subcommittee of the Finance Committee has also conducted important hearings on the President's proposal, and has plans for additional hearings.

Other Members of Congress have expressed strong interest in welfare reform, and two major alternate proposals have recently been put forth. The Chairman of the House Ways and Means Committee has introduced a welfare reform bill. And a number of Senators, including Senators Baker, Bellmon, and Ribicoff, are developing another major welfare reform proposal.

We believe that the introduction of these alternate proposals enhances the possibility of enacting meaningful welfare reform legislation this year. We have problems with each of the alternate proposals, and—not surprisingly—we believe that the administration proposal is superior in important respects.

But the Ullman proposal and the Baker-Bellmon-Ribicoff proposal include many of the important features of welfare reform and of a combined jobs and income strategy that are contained in the administration and the welfare reform subcommittee bills:

They would extend cash assistance coverage to two-parent families.

Senator NELSON. May I interrupt.

Are these following statements here in reference to the Baker-Bellmon-Ribicoff proposal or to the administration's proposal?

Secretary CALIFANO. These are statements that apply to all of the proposals. They are elements of the administration bill and are included at least in the drafts that we have seen of the Baker-Bellmon proposal and of the Ullman proposal.

Senator NELSON. Is it a proposal by Senators Baker, Bellmon, and Ribicoff?

Secretary CALIFANO. Baker, Bellmon, and Ribicoff.

All would extend cash assistance coverage to two-parent families.

They would establish a national minimum benefit.

They would move in the direction of greater uniformity of rules and eligibility standards.

They would simplify administration.

They would provide public service jobs for poor families.

They would expand the earned income tax credit.

They recognize the importance of cashing out food stamps for at least some recipients as a step toward a consolidated cash system.

In short, the introduction of the Ullman and Baker-Bellmon-Ribicoff proposals reflects an emerging consensus for significant reform upon which to build.

It is for these reasons that I am optimistic. I believe the three House committees now considering welfare reform legislation can report out a bill that can be considered and passed by the full House in time for the Senate to act this year. This committee working with the Finance Committee and the administration can develop a proposal that embodies the essential principles of reform contained in the program for better jobs and income, and such a bill can be passed by both Houses of Congress in 1978.

Passage of a major welfare reform bill that embodies the principles of the administration's proopsal would be a signal achievement—for Congress, for the administration and, most important, for the American people. It would replace the existing inequitable and inefficient system—a system which is losing the confidence of our citizens—with a new system that is both efficient and humane, a system that provides adequate assistance and genuine work opportunities for low-income Americans.

We look forward to working with you in completing this critical task on the Nation's agenda of unfinished business.

Thank you very much, Mr. Chairman.

Senator NELSON. Thank you, Mr. Secretary.

On page 19 of Secretary Marshall's statement and on page 8 of yours, you both address the same point using different statistics.

On page 8, you say, for example, that a family of four will have an income of at least 20 percent above the poverty line. Principal earner has a full-time job, and you say the same family will have an income at least 10 percent above the poverty line if the principal earner has a special public job.

Secretary Marshall used figures 20 percent and 13 percent.

Is there a mistake? There must be a mistake in one or the other.

Secretary CALIFANO. Where is this?

Senator NELSON. Page 19 of his statement and page 8 of your supplement.

Secretary CALIFANO. Mr. Barth will explain it.

Mr. BARTH. On page 8 of the supplement, it says if the principal earner has a full-time job in the private sector or in a regular public job at or above the minimum wage. Under H.R. 9030, such a person would also be eligible for earned income tax credit, whereas they would not be eligible for the earned income tax credit if they were in special public job.

Senator NELSON. Are you not talking about exactly the same thing as Secretary Marshall? The question I am raising is that he uses the figure 13 percent and you use the figure 10 percent.

Secretary CALIFANO. Mr. Chairman, I think we will have to reconcile that.

Senator NELSON. I think it ought to be corrected for the record.

How do you feel about the medicaid question, those who lose their medicaid when their income gets too high?

Secretary CALIFANO. In the legislation that we do not touch medicaid. We leave medicaid eligibility as it is. Our intention is to take care of the medicaid problem as part of the national health insurance proposal.

Senator NELSON. But is there going to be a national health insurance proposal made this year?

Secretary CALIFANO. Yes. The President has indicated that we would announce some principles probably sometime late next month and that he will send a proposal to the Congress this year before it goes home.

Senator NELSON. Well, what is the effective date of the implementation of the welfare reform proposal?

Secretary CALIFANO. The welfare reform proposal would be effective in 1981. We are now looking at how we can mesh, if it is possible to mesh our national health insurance proposal with our welfare reform plan insofar as the medicaid population is concerned.

Senator NELSON. Well, in any event, if you did not have a national insurance program, you would have to deal with that medicaid question?

Secretary CALIFANO. Yes. We would have to deal with it one way or another. The reason it is left the way it is in the present proposal is because the States by and large did not want to assume additional costs of the additional population. We were not prepared to recommend federalization of the program at this point in time, at least on the basis of the studies we have done.

Senator NELSON. I did not have a chance to go through your supplemental statement. We raised the issue with Secretary Marshall yesterday of supplying the committee with a series of examples of what would happen in a cross-section sampling of States as you applied the program, how much money would they get, and next we are concerned——

Secretary CALIFANO. We can give that for all States, Mr. Chairman.

Senator NELSON. What would the impact be on a family under the program, exactly what would happen to them in any State? We would like some examples—if they get a public service job at a minimum wage, a public service job above minimum wage, and if they have private employment, at what rate their benefit supplement phases out so that we can look at how it works as applied to individual cases and individual States.

Secretary CALIFANO. Yes, we can, Mr. Chairman.

Senator NELSON. You state in your testimony that all States would receive some net fiscal relief by the use of Federal money, is that correct?

Secretary CALIFANO. There is a guarantee written into the legislation of at least 10 percent fiscal relief for each State. Most States will receive more.

Senator NELSON. Will we have a sampling by State?

Secretary CALIFANO. We can give you our best estimates of fiscal relief State by State.

Senator NELSON. I raised the question because many States, including my own, which have levied the taxes to provide services also have lots of dollars spent on Federal programs in other States where they do not assess themselves to the extent our State does, and I would be very wary of the program that requires States that are already doing a good job to subsidize other States who are not.

Now, I have not looked at the formula so I do not know whether it does that or not.

Secretary CALIFANO. Mr. Chairman, we do not think that it does. In the initial fiscal relief estimates we made, we have been through a fairly substantial process with the States. In the initial fiscal relief estimates we made, which we worked with States on, we then called them in and went over those estimates State by State, after we first put them out last August. And we made some changes in them because the States indicated to us on an individual basis some of the assumptions as to behavior we had made were not exactly what they do. But I think the numbers which we can provide for the record now are for the most part, numbers on which State people will agree and on which our people will agree.

Senator NELSON. I raised this question with Secretary Marshall yesterday that I raised several years ago on H.R. 1, the question of using uniform poverty level figure nationwide. Again I have not had a chance to look at your formula carefully enough, but it seemed to me one of the serious faults of H.R. 1 was that they assumed the same poverty level for all States when the fact of the matter is that where you would need $4,000 in rural Mississippi to live on, you would have to have $9,000 in New York or some figure like that. Housing is five times as much.

How do you get around that question, using a national poverty level when, in fact, the level is much higher in some places?

Secretary CALIFANO. $4,200, for example, for a family of four is the Federal payment we would provide for any family in the country. The variation will come in the extent to which States choose to supplement. We will match State supplements to the extent of 75 percent of the next $500 above $4,200 that a State is willing to provide for a family of four, and beyond that we will supplement to the extent of 25 percent of the difference between $4,700 and the poverty level in that particular State. So we would reflect variations in the poverty level in that way.

What we regarded the $4,200 as was the absolute bare minimum essential anywhere in this country, essentially a national minimum floor.

Senator NELSON. On that $4,200, the Federal Government would pay——

Secretary CALIFANO. We pay 100 percent of the $4,200 with one caveat, which is that in States in which that would totally wipe out the obligation, in States in this country in which $4,200 is more than the State is now paying, we would require them to continue paying at least 10 percent.

Senator NELSON. Of what?

Secretary CALIFANO. Ten percent of $4,200. It would be $420, so they would at least be paying something.

Senator NELSON. It seems to me that there is a serious problem in any event, if you pay all $4,200, and 75 percent of the next $500, and then 25 percent of anything in excess of that——

Secretary CALIFANO. Up to the poverty line.

Senator NELSON. Which is what, $5,810?

Secretary CALIFANO. $6,400 or $6,500 in 1978.

Senator NELSON. It is minimum wage?

Secretary CALIFANO. I am sorry. I missed your question.

Senator NELSON. It is minimum wage that brings you to $5,800, is that about right? It is $6,400 in any event.

So you have the $4,200, which is totally paid by the Federal Government, 75 percent of the next $500 paid for by the Federal Government, that gets you to $4,700. Then the balance of the $1,700 to get you to $6,400, the Federal Government paying 25 percent and the States paying 75 percent.

Secretary CALIFANO. That is correct.

Senator NELSON. Now, when applying that to States that are already at some level substantially above that, you end up paying 100 percent or almost 100 percent of the benefits in the low paying States, and what is the highest level paid by any State, do you know?

Secretary CALIFANO. The highest level paid? It is Oregon and New York, and it is about at the poverty line, about $6,400. States can pay more if they wish, but we do not share in the additional payments.

Senator NELSON. I guess I will want to look hard at that formula and see how many States are involved.

But back to the situation where States are going to get 90 percent—you say they would have to pay 10 percent if $4,200 is maximum?

Secretary CALIFANO. In those States where $4,200 would wipe out or more than wipe out what the State is now paying a family of four, we require that State to pay 10 percent, essentially a few Southern States.

Senator NELSON. They pay $420 out of the $4,200?

Secretary CALIFANO. That is correct.

Senator NELSON. Not in addition to $4,200?

Secretary CALIFANO. That is correct.

Senator NELSON. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Secretary, I just want to say that I am all for trying this. Whatever we are doing is not working now and it is worth a try. It does appear to be extremely expensive. But let me just go back to pursue the line the chairman was asking you.

My real question is this. What incentives have the States got to police this? If it is all Federal money, we know from experience that the States, even though, as you point out in your testimony, will have a role, their role will not be a very conscientious one because you and I both know that if it is Federal money and the States do not pay anything, it is all for free, come on and get it, and our State, after this storm, well, the Federal Government came along and said anybody inconvenienced by this storm can get food stamps, and two-thirds of the State lined up and got those free food stamps. Their conscience bothered them, a lot of them, but they took them anyway because it is just Federal money.

So what have we got here? Is the incentive for States to pay attention and police this, is it in the 25 percent of $500 on top of the $4,200?

Secretary CALIFANO. Yes.

Senator CHAFEE. And then 75 percent in excess of the $4,200——

Secretary CALIFANO. That is right.

Senator CHAFEE. Of the $4,700?

Secretary CALIFANO. Of the $4,700 up to the poverty line. Also one of the reasons why we keep those few States in at $4,200, which would otherwise wipe it out would give them financial incentive that is in response to the point you were just making.

Senator CHAFEE. It has been my experience where a Federal program is percentage wise heavily carried by the Federal Government, the 90–10 road program being a classic example, that that 10 percent of the State's share is so minimal in return for $9 for every dollar you put up that, in effect, there will be no policing whatsoever. No politician can resist the 90 percent Federal dollars, and so if you work out your percentage of 25 percent of $500 in order to get $400 total, it is pretty minimal. It is what percentage of the $4,700? I suppose 7 percent or something like that—tiny.

Secretary CALIFANO. That is correct. But we did put some other provisions in the legislation, Senator. One, there is a bonus for good administration on the one side of the ledger and, on the other side of the ledger, the legislation gives the Federal Government power to take over the intake functions if the State does not perform.

So I think there is adequate protection. The very point you make about 10 percent incidently, is the point the President made in one of our discussions about this legislation.

Senator CHAFEE. He has been through the road program.

Secretary CALIFANO. He has been a Governor as you have.

Senator CHAFEE. I am not nitpicking. I want this to work. I commend you, and it is an incredibly difficult job, I think. I know it is. I am sure you have wrestled many hours with this.

The next question is, is there some kind of system whereby when you make your transferal into the completely private sector, you become self-supporting, that you can make that without losing money?

For example, as I get your suggestion here, let us say in 1981, minimum wage is $3.85, so somebody works 40 hours a week and gets $134 times 52, and they get nearly $7,000. But then there is cash assistance that comes in with that of $716. So the person has a considerable income, but are they going to pay taxes on that cash assistance, too?

Secretary CALIFANO. They do not pay taxes on cash assistance. If you take our program, we have it skewed so an individual of the highest benefit reduction rate for individuals expected to work is 52 percent. Under present law, in many States, in many situations, an individual is allowed to keep only 10 cents, in effect, of those early dollars that he or she makes. Under our legislation, for those expected to work, it will be 48 cents.

Now, one of our problems with the legislation, passed out of the House Welfare Reform Subcommittee, although it generally follows President Carter's proposal, is that they sharply escalate these benefit reduction rates to well over 80 percent. That gives us concern in the context of how much incentive is left for somebody to work. I am sure it will be an issue in this committee as it has been in the House.

Senator CHAFEE. When the person finally blends in completely to the private sector, he will not lose?

Secretary CALIFANO. He would not lose. In every case under our legislation——

Senator CHAFEE. Except his medicaid he might lose?

Secretary CALIFANO. We are looking at that now. That is correct. He or she will make more money working than not working, and more money working in the private sector because the earned income tax credit applies only to private sector jobs or ordinary regular public service jobs, not to the special jobs created by the legislation.

The rate at which benefits are reduced would never exceed 52 percent for those individuals that we expect to work as they move into the work sector of the economy.

The problem with medicaid, we have to deal with that. Presently, medicaid is a notch problem. Under present law you lose medicaid once you hit a certain dollar level of income, and it creates a serious problem. The most serious problem we have with medicaid and medicare is not with the welfare program as such. It is much more with the disability program under social security and SSI disability program, and where individuals who are disabled are very concerned about losing their medicare and medicaid benefits when they go to work. I think it has become a serious factor in discouraging disabled individuals from entering the work force.

Senator CHAFEE. Getting back to a question again of the chairman's exploring that a little farther, what is the drive to make a minimum, national minimum benefit level? Is it the concern that Mississippi is not treating their people correctly or is it just inadequate——

Secretary CALIFANO. It is a concern that the whole Nation should share in providing some minimum benefit for absolute rock bottom minimal amount that an individual needs to survive in this country. That is essentially the concern. It is not simply the fact that there are some States that do not even provide that amount. It also gives an opportunity, that combined with other things, to provide some fiscal relief to some States that need help.

Senator CHAFEE. Is there any suggestion by going to this minimum, that thereby will cut off what I think is a myth that people shop around where they are going to settle in order to achieve welfare benefits——

Secretary CALIFANO. No. I think this program would result in much less variation than now exists among the States in terms of welfare benefits that are paid. But there would still be disparities. I share your view. I think relatively few people move—I think more people move for jobs. We are seeing some indication of that in the last several months in the context of poor people moving from the North to the Sun Belt for the first time in many, many years because there are jobs there.

Senator CHAFEE. I thought those were very significant statistics if, in fact, it is a trend.

Thank you. That is obviously going to take a lot of work on everybody's part, and I certainly commend you and the Department for trying to wrestle with this ghastly problem. It may not be perfect but I am going to try something there myself.

Secretary CALIFANO. Thank you very much, Senator. I appreciate that.

Senator NELSON. Your figures and OMB's are about $10 billion apart, I take it?

Secretary CALIFANO. And CBO.

Senator NELSON. You are about $13 billion? They are around $20 billion?

Secretary CALIFANO. Yes, Mr. Chairman. We will submit a detailed reconciliation. I should have mentioned that before. On the cash assistance part of the program, in terms of estimates for the cash assistance part, on an amount of about $36 billion in 1982, we are $2 plus billion apart, about a 7 percent divergence which we do not think is that much when you are trying to project numbers out as far as 1982. On the jobs part, there are more significant discrepancies relating to CBO and Labor Department concerning jobs and the kinds of jobs people will take.

In terms of offsets, namely those programs we counted as offsets to the welfare program, these are perhaps the most significant differences. The Congressional Budget Office did not assume that any legislation that was not enacted was in place. We did assume, when we made the initial offsets, in August of last year and September of last year, when I first testified, that certain pieces of legislation would be in place and that certain economic conditions would exist. The biggest example is we assumed that unemployment would be at about 5.6 percent and, therefore, about $5.5 billion of funds are now being spent in the countercyclical CETA program were not being spent.

We counted that $5.5 billion as an offset, for example, and the Congressional Budget Office does not.

Senator NELSON. Do you have a figure on what the net increase, if there is one, of the welfare costs will be? In other words, taking the whole universe—the Federal Government, State expenditures, as applicable to eligible people under this program—is there a net increase and, if so, how much?

Secretary CALIFANO. There is a net increase. How much it is is a function of what different kinds of activities we assume. When we began in August and September, we projected the net increase of $2.8 billion, but we got into a disagreement there over the extent to which roughly 3—I guess $3.1 billion should be counted because it is earned income tax credit money that goes to individuals roughly earning between $9,000 and $16,000, whether that money should be counted as part of the relief to middle income taxpayers or as an addition to the cost of the welfare program.

I think the best way to do this, Mr. Chairman, might be for us to submit to you and Senator Chafee and others just a list of our estimates, CBO's estimates, other estimates and reconciliation of three estimates, and you will see the differences.

Senator NELSON. I think the question will be raised frequently as to what is the net difference under this program. We have a rollcall vote going on and the second bells have rung.

I do not have any more questions.

Senator CHAFEE. I do not either.

Senator NELSON. We will not hold you here any longer. I think We will have some more questions but we will submit them in writing.

Secretary CALIFANO. We will submit them for the record and provide whatever you wish.

[The questions referred to follow:]

QUESTIONS SUBMITTED TO SECRETARY CALIFANO BY THE COMMITTEE

Question

Mr. Secretary, those who are "not expected to work" include the aged, blind, and disable — many of whom may prefer to work and would apply for a job or training opportunity. But isn't it probable that these persons will be regarded as low-priority job applicants who will be expected to be satisfied with their "upper tier" cash benefits?

Answer

An important goal of the Program for Better Jobs and Income is to provide increased employment opportunities for the low income population. In order to do this, the program provides up to 1.4 million employment and training opportunities for the low income population. Our estimates suggest that this level of funding will be adequate to provide employment opportunities for one worker in each family with children. We believe that, while it would certainly be desirable to provide employment opportunities for everyone, it is at this time not feasible to do so. Engaging in large-scale job creation could have a variety of effects that we wish to monitor more carefully before we undertake further expansions beyond that proposed in the Program for Better Jobs and Income. Given that we can at this time provide jobs for a fraction of those who might want them, although it would certainly be a very large fraction, we believe that it is appropriate to provide jobs first to those persons who head families with children.

Question

Mr. Secretary, the nationally uniform basic benefit level, as I understand it, amounts to approximately 65 percent of the current poverty level. Is that a sufficiently high standard to be setting as a national commitment to poor families?

Answer

A nationally uniform basic level of 65% of the poverty line must be understood as the basic building block of the income maintenance and employment system. In those locations where recipients who have zero income would receive the basic grant, the basic grant is an improvement since an important feature of the President's proposal is to establish a national minimum. The proposal then subsidizes State

supplementary payments above that level and we expect that in all States current benefit levels would be maintained because the State could, by virtue of the Federal subsidization of supplements up to current benefit levels, maintain those levels and still receive fiscal relief. Thus, in all but ten States, the benefits available to recipients would exceed those set at the national minimum benefit level. Another important point to note is that most recipients do not have zero income. They have earnings from employment and other sources of income. One of the important features of the Program for Better Jobs and Income is to provide increased employment opportunities for the low income population. The PBJI provides for up to 1.4 million jobs.

Question

Mr. Secretary, let us look at another facet of the benefit standard. As I understand it, the benefit level for an elderly person who is over 65 years of age is 16 percent below the poverty line. An aging worker who is under the age of 65 would receive benefits that are 63 percent below the poverty line. Can you confirm this infomation, and would you comment on it?

Answer

The benefit level for a person at zero income who is 65 or over is, as the question suggests, a larger fraction of the poverty line than that for someone under age 65. This reflects the fact that in developing the Program for Better Jobs and Income we attempted to, at a minimum, maintain current SSI benefits, with raising those for families. Current SSI benefits are a higher fraction of the poverty line than are benefits to families. As suggested in my answer to a previous question, the basic benefit level should not be viewed as the total amount available to families or persons, in most cases. This is because of State supplement payments and many persons and families have other sources of income such as earnings, private pensions, unemployment insurance, and the like.

Question

Mr. Secretary, the bill holds a State harmless after its expenditure of 90 percent of its current costs. Fiscal relief, therefore, is presumed to be at least 10 percent, based on current expenditures. As you know, however, the present system provides Federal subsidies at different levels. New Jersey, for example, receives a 50 percent

Federal level of support for AFDC, while other States receive up to 78 percent. By using "current costs" as the basis for holding the States harmless, you have done nothing to correct the inequity of the present system — in fact, you would perpetuate it, would you not?

Answer

The essence of a hold harmless provision is that a State is provided with an assurance that it will not have to spend more than it is currently spending. The hold harmless provisions in H.R. 9030 provide that assurance. If one examines the estimates of likely fiscal relief under H.R. 9030, it is seen that fiscal relief is greater where current effort is greater. Thus, those States and localities that have in the past put forth the most effort to aid their low income populations would, in fact, receive the most fiscal relief.

Question

Mr. Secretary, the bill contains no provisions for aligning Medicaid eligibility with the eligibility standards of the program. Since this program would have a broader clientele, there is a need to deal with the costs of a possibly higher participation rate in Medicaid. Why were Medicaid costs not included in the programs for which the States would be "held harmless" at 90 percent?

Answer

H.R. 9030 contains provisions in Section 105 that are intended to deal with the relationship of the reformed welfare system to the Medicaid system. Basically our position is that the Medicaid program and, indeed, the entire health care delivery system and health care financing system need far reaching policy changes. These changes should be done within the context of national health insurance and the Administration is currently in the process of developing a national health insurance proposal that will be sent to the Congress. Section 105 of H.R. 9030 is intended to deal with what we presume will be a non-existent situation, i.e., the coexistence of H.R. 9030 and the existing Medicaid program. Section 105 essentially freezes Medicaid eligibility standards where they are in order that, when cash assistance is extended more broadly by H.R. 9030, States would not bear the fiscal liability of expanding their Medicaid roles. It is our view that any dollars added to medical care financing should be done so within the context of National Health Insurance. The reason Medicaid costs are not included in the item for which the States would be held harmless is that we presume that the Medicaid issue would be dealt with in the context of national health insurance and that national health insurance could be implemented together with welfare reform.

Question

What happesn to a person who, after spending a year in a subsidized job, fails to find work in the 5-week job search — is that person placed on the rolls of the full "upper tier" cash benefits?

Answer

If at the end of one year in a subsidized job, an expected-to-work recipient has not found an unsubsidized job, the recipient is required to enter a five week job search period. During the first two weeks of this period the Jobs Program will continue to provide him with wages. For the next three weeks, the recipient will receive the lower level of benefits. If at the end of the job search the recipient has conducted an intensive job search but has failed to secure a job, he will again be eligible to receive a subsidized job under H.R. 9030.

Question

What about the increased need for support services, such as child care, in a program that envisions 1.4 million persons taking a job — how can we meet this need?

Answer

We do not expect that the 1.4 million public service jobs to be enacted under welfare reform will greatly expand the demand for support services such as day care. Most of the jobs will go to the principle wage earner in two-parent families. The second parent is not required to work under the program and, thus, will be able to care for the family. Single parents with children under 7 years of age will not be required to work and those with children 7-13 years of age will only be required to take a part-time job during school hours. In addition, the Department of Labor has estimated that approximately 150,000 of the 1.4 million jobs will be in the day care field, which will expand the supply of day care.

States are also authorized to provide social services to low income persons under Title XX of the Social Security Act. These funds may be spent for such services as homemaker, legal services, family planning, housing improvement, chore and housekeeping, and education and training. In addition, since 1977, the funding for Title XX has been Expanded by a $200 million day care authorization.

Question

Mr. Secretary, the administrative complexity of the program is a matter of concern. For example, a State is given the option of operating the "intake" function; some will do so, while others will leave it to your department. Since you will be responsible for it in certain States, can you tell us how you plan to conduct the "intake" activity, and what is the path that an applicant will follow through determination of eligibility, evaluation of the need for services, referral for job search, job search (for 5 weeks), interviews for a regular CETA job (for 3 weeks), and placement in a subsidized welfare job under this bill?

Answer

Following is a description of the path an applicant will follow through intake, eligibility determination, and job search and referral under the reform welfare system proposed in H.R. 9030. We will describe, as an example, the path of a single mother with a child between the ages of 7 and 13.

Enrollment Actions

The single parent applies for cash assistance at the local cash assistance office. The cash assistance office may be State or Federal-operated, depending on whether the particular State has elected to administer the intake and eligibility determination functions.

After explaining the basic eligibility requirements and employment referral provisions of the Program for Better Jobs and Income, an interviewer helps the single parent complete an application for benefits. The application form will ask for information concerning the family's composition (i.e., other relatives who may be living in the same household), income over the six-month retrospective accountable period, bank accounts, and other assets. The inverviewer will request evidence such as birth certificates of the children, bank books, and earnings statements. If this evidence has not been brought to the first interview, the interviewer will ask that it be brought to the office. In some instances, the additional information or evidence can be mailed to the office so that a return trip will be unnecessary. In any event, no more than one return trip to the cash assistance office will be necessary.

During the first interview, the interviewer will also do several other things which will make sure that the applicant understands everything necessary about the program and also receives any other assistance for which they are eligible.

The interviewer will:

A. Explain the jobs part of the program (see below).

B. Explain that the single parent will have to fill out a simple report every month, giving information about her earnings, other income, and other changes in the family's circumstances, such as a relative moving into the household, that may affect their eligibility program or their payment amount. She will be shown how to fill out the monthly report and told when to send it in. Several copies of the report will be given to her; a new report will be mailed to the family every month.

C. Refer the family to the State or local office which handles Medicaid, social services, and emergency assistance. It is probable that these services will be provided by one office, also located in the same building with the cash assistance office. This may not be possible in all localities simply because it may not be possible to get adequate space. However, every effort will be made to see that as many services as possible are provided at one location.

D. Determine whether any members of the family may be eligible for benefits from other programs, such as Veteran's pensions or Social Security. If this appears likely, the applicant will be referred to the appropriate office.

When the interviewer has all of the information about the applicant he/she needs, this information will be sent by telecommunications equipment from the cash assistance office to the computer records set up and maintained by the Federal Government (probably by a new and separate organization within the Social Security Administration) so that the family can begin to receive their cash payments. The monthly cash assistance checks will be produced by the Federal Government (probably the Treasury Department) and sent directly to the family.

Since the applicant has been found eligible and is a single parent with no children 6 or younger, she is told she will be expected to seek and accept, a part-time job while her child is in schpol. (Note: this requirement would be waived if she were incapacitated or disabled.) She is told that she will continue receiving benefits on the high track as long as she complies with the job search requirements. If no unsubsidized part-time job (or, if she prefers, full-time job) can be found, after a five week period of intensive job search, she may be placed in a subsidized part-time (or, if desired full-time) work or training position. If no subsidized or unsubsidized part-time position can be found, she stays on the full benefit payment schedule.

The woman is instructed to register with the local employment and training (E&T) office to begin the five week job search plan which will be developed for her. The mother promptly registers with the E&T office which, in turn, notifies the cash assistance office that she has complied with the registration requirement. At the time of registration, an assessment is made of the woman's job readiness, and her need, if any, for labor market orientation, job seeking, skills, training, etc.

Assuming the woman is job ready, a 5-week job search plan which includes counseling and job training if necessary is developed. The plan combines E&T office referrals to appropriate job openings with an agreed upon number of employer contacts which the client is to initiate. If the woman successfully obtains a private sector part-time job, she informs the E&T office she has accepted the job. The E&T office notifies the cash assistance office that employment has been obtained and, if possible, the wage or salary level at which she was employed.

The woman begins her job, reporting her income to the welfare office on the monthly income and earnings statement. Any adjustments in her cash assistance payment are made to reflect her earnings. She has no further contact with the E&T agency, unless her circumstances change — loss of job, child reaches age of 14, etc.

If the Individual is Not Job Ready

If the woman lacks recent job experience and job skills, she could be enrolled in an SPJ training program or placed in a subsidized part-time job in a project designed to utilize unskilled workers after the five week waiting period. In either event, the E&T agency notifies the cash assistance office that this individual will be involved in training or subsidized part-time employment. The client reports the resulting change in income to the cash assistance office so that her benefit is adjusted accordingly.

Typical Status Changes

1. The only child becomes 14 years of age.

The cash assistance agency moves the family to the reduced level of benefits and notifies the E&T agency that the mother can now be required to seek and accept full-time employment. The mother must register with the E&T agency and undergo a five to eight week period of intensive job search. After five weeks she may be placed in a subsidized job. If no placement has been made after eight weeks, the family may "flip up" to the full benefit schedule. If "flip up" occurs, the individual will continue to be subject to the job search requirement.

2. The woman has another child.

She notifies the cash assistance office of her change of status. She is removed from the required to work category and her benefit is adjusted. No involvement of the E&T agency.

3. The woman loses her job.

Her change in status would be reflected on her monthly income statement to the cash assistance agency. The agency would refer the woman to the E&T agency for a job search period, if required, and her benefits would be adjusted accordingly.

4. The woman marries an employed man.

The family's income and assets would determine cash assistance eligibility. A determination would be made as to the primary earner and participation under the parents title would be based on this determination.

5. The woman seeks and obtains a full-time job — either in the private sector or in the subsidized public sector.

If the referral is made by the E&T agency, it informs the cash assistance office of the placement. Her increased earnings would be reported on her monthly income statement so that her benefits will be adjusted accordingly.

Variation

An unemployed single parent may not be eligible for cash assistance because he/she possesses excessive income and assets. Nevertheless he/ she is seeking a job. The individual would undoubtedly apply to the E&T agency for Unemployment Insurance benefits, if eligible and be referred to the Employment Service for job referral and placement services. The individual would be entitled to the normal range of labor market services. Depending on ones economic and demographic status he/she could be referred to a non-welfare related training, PSE, or work experience opportunity under Titles I and II of CETA or to a State funded non-profit sponsored employment and training program. However, since the person qualifies as a principal or sole earner in a family with children, he/she is also eligible for a subsidized job placement after the five week job search period has been satisfied.

The above individual could register with the cash assistance agency but would not be eligible for benefits unless his or her income and assets were reduced to the prescribed eligibility level.

Question

Mr. Secretary, single parents would not be "expected to work" if they have very young children -- under the age of 7 years. To some, this rule may imply that children in elementary school don't need their mother at home. If the age standard were raised to 13 years, do you have data to indicate how that would impact in both of two ways:

1. The additional cost of "upper tier" benefits for single parents with children in the 7-13 year age bracket; and

2. The reduction in the number of job opportunities that would be required (which would constitute an offsetting savings from the additional benefit costs)?

Answer

Under H.R. 9030, single parents with children 7-13 years of age are only required to seek and accept a part-time job during school hours. If such a job cannot be found, a single parent is not required to work and will receive benefits at the higher benefit schedule. If these parents were not required to accept part-time employment, we have estimated that it would raise the cost of Federal benefits $240 million in FY78. It is estimated that such a change would also decrease the demand for jobs by 38,000 slots, or $270 million, resulting in a net decrease in Federal costs of $30 million. State costs for their share of basic benefits and supplements, however, would increase $120 million, resulting in a net Federal and State cost increase of $90 million.

Senator NELSON. I wish to say I think the administration has done a very fine job of defining a program to target in a constructive way on a very important problem, and I have not seen any better one or any one as well done as this. If our assumptions are within the ball park on how many people will work and so forth and so on, I think that this will result in engineering a rather dramatic change in welfare programs in this country to the good.

Thank you.

Secretary CALIFANO. Thank you.

Senator CHAFEE. One quick question, Mr. Secretary.

This will relieve the States and impose on the Federal Government a very substantial sum of money. This is what you were talking about before, 10 or 13, or whatever it is, is that correct?

Secretary CALIFANO. That is correct. We estimate it will provide almost $2 billion in fiscal relief to the States.

Senator CHAFEE. $2 billion?

Secretary CALIFANO. $2 billion.

Senator CHAFEE. I see. Thank you very much.

[Whereupon, at 10:31 a.m., the committee adjourned, subject to the call of the Chair.]